AGRICULTURAL CO-OPERATION IN INDIA

A HANDBOOK FOR STUDENTS AND SOCIAL WORKERS

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CHRISTIAN LITERATURE SOCIETY
FOR INDIA
MADRAS ALLAHABAD RANGOON COLOMBO
1925

BOOKS FOR THE TIMES

Edited by A. J. APPASAMY
M.A. (Harvard), D.Phil. (Oxon)

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PREFACE TO THE SERIES

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The Editor.

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THAT OUR SONS MAY GROW UP AS THE YOUNG PLANTS: AND THAT OUR DAUGHTERS MAY BE AS THE POLISHED CORNERS OF THE TEMPLE.

THAT OUR GARNERS MAY BE FULL AND PLENTEOUS WITH ALL MANNER OF STORE: THAT OUR SHEEP MAY BRING FORTH THOUSANDS AND TEN THOUSANDS IN OUR STREETS.

THAT OUR OXEN MAY BE STRONG TO LABOUR, THAT THERE BE NO DECAY: NO LEADING INTO CAPTIVITY, AND NO COMPLAINING IN OUR STREETS.

INTRODUCTION

The Co-operative Movement

THE word, co-operation, in the sense in which it is used here, namely, of a special mode of doing business, is somewhat difficult to define. Writers on the co-operative movement have described its nature and aims, often in effective language; but for a definition which sums up the essential attributes of co-operation as distinct from other and apparently similar modes of doing business, the student seeks in vain. This is partly due to the fact that those forms of co-operation, especially industrial co-operation, which have stood the test of time are not the result of any carefully thought out theory of life or business, but were primarily expedients devised to meet certain specific situations and difficulties. It is true that Robert Owen in England and Fourier in France looked forward to a new type of society, of which the main characteristics they laid down with an amazing degree of precision; and co-operation with them was the harbinger of this new society. But the forms of co-operation with which their names are directly identified have not been attended by any considerable degree of success. At present

the co-operative movement in its more successful forms is represented to a large extent by societies which grew up almost unconsciously as practical solutions of obvious difficulties rather than as embodiments of a distinct theory of economic organization. The outstanding instance of this is also the classic instance of co-operation. The flannel weavers of Rochdale were both weavers and idealists, but their idealism was strictly limited and regulated by their immediate necessities as weavers. Their greatest necessity was to get supplies; and to this end they evolved a scheme, primarily directed to meeting their immediate need but not untouched by the inspiration of a splendid idealism. The great distributive movement in co-operation, which sprang from the Rochdale experiment, shows through all its later stages this intensely practical strain. Its leaders were not out for bringing in a new heaven and a new earth—they rather accepted the facts which they found about them. A shrewd recognition of facts, a readiness to make changes but only where really necessary and practicable, a subdued indwelling sense of a high, though rather vague, ideal of social relationships—these were the main features of the earliest and most remarkable experiment in co-operation. To understand the movement, then, it is necessary that we should not attempt to read into it any clear-cut, consistent theory. It is a movement which has grown out of circumstances, and is even now shaped by circumstances, though in all its phases it has

also embodied a certain lofty strain of idealism. To gather up this idealism and express it in a rigid definition would hardly do justice to the movement. The ideal is still vague and still struggling for expression in an incessant conflict between what may be called the higher and lower aspects of the movement.

If, then, we cannot define co-operation, have we any tests by which it may be distinguished roughly from other specific modes of business? In a well known text-book on the subject, an English economist has given a clear analysis of the difference between co-operation and three other organizations with which it is apt to be identified, namely the friendly society, the trade union, and the joint stock company.[1] Unlike the first two, a co-operative society exists for the purpose of carrying on business, that is, trade. A friendly society does not do business, but rather organizes the proper disposal, in certain respects, of the fruits of business. It is not concerned with business but with the savings which men make out of business, its object being to make provision against such contingencies as death, accident, sickness, and old age. Similarly a trade union does not do 'business' but attempts a proper organization of the conditions of business with a view to safeguarding the interests of the employee as against the employer. It exists primarily for the purpose

[1] *Co-operation at Home and Abroad*, C. R. Fay, 1908, P. S. King & Sons, p. 1–5.

of ensuring satisfactory social, economic, and political conditions for one large section of industry, namely, labour. But it does not take any part in the industry itself. A joint stock company is like a co-operative society in that it is intended for carrying on business on a large scale by means of a combination of people. What, then, is the difference between the two? The answer often given is that a joint stock company is a union of capital, whereas a co-operative society is a union of persons. This is not a mere figure of speech but points to a real difference. The difference is that a joint stock company carries on its business with the deliberate object of declaring a dividend on its capital, but a co-operative society undertakes business rather with a view to a better ordering of the conditions of life for all those who participate in it. This sense of the worth of human personality enters much more actively and consciously into the operations of a co-operative society than into a strictly commercial undertaking like a joint stock company. What makes this sense operative is the fact that the management of a co-operative society is not confined to a few persons who supply all the capital and skilled intelligence necessary for the business, but is distributed among the members generally. Where a society is run by share capital, the shares as a rule are fixed at amounts sufficiently low for even the poorest of those who wish to join; and its administration is based generally on the principal of 'one man, one vote,' whatever

the amount of capital that each person may hold in the society. It is one of the first principles of co-operation that 'the production of fine human beings, and not the production of rich goods, is the ultimate aim of all worthy endeavour.'[1]

Some idea of the general nature of co-operative business may be gained by examining the characteristics common to a few typical societies. The characteristics of an English society were summed up in an official report published a few years ago.[2] They are sufficiently indicative of what may be looked for in co-operative societies generally though they must not all be regarded as indispensable nor are they altogether exhaustive.

1. Membership is open to all comers, the committee of the society, however, usually having the right to refuse the admission of any persons whose membership is regarded as likely to be detrimental to the interest of the society. Subject only to this qualification, the shareholders' list of a co-operative society is never closed.

2. The shares in a co-operative society (which are invariably issued at par value) are in all cases of small amounts (usually one pound) and may generally be paid up by weekly or quarterly instalments or even by the automatic accumulations of the sums accruing

[1] Professor Alfred Marshall at the Co-operative Congress, Ipswich, 1889.

[2] Report on Co-operative Societies in the United Kingdom, 1912, cd. 6045, pp. 11–12.

to the holder as his share in the profit of the society, without the necessity for any cash payment beyond a trifling amount paid on allotment.

3. The bulk of the share capital is withdrawable at short notice. Many of the societies, however, compel each member to hold at least one transferable share (which can be realized only by sale).

4. Almost without exception each individual member possesses one vote irrespective of the number of shares held. Where share capital is owned by other societies, these societies are usually allowed additional votes in some proportion to the amount of share capital held by them.

5. The return on share capital is in most cases limited to a fixed rate of interest (usually 5 per cent per annum). The surplus profit remaining after the payment of this interest are usually distributed in certain agreed proportions, in some cases between the societies' customers, both members and non-members, as dividend on purchases, in others between the shareholders, customers, and the employees, while in the case of agricultural societies, they are divided between the customers, the employees, the suppliers of raw materials, and the shareholders, but seldom do the shareholders receive, in right of their capital, the whole of the profits.

6. Publicity of accounts is a universal feature. As a rule the statements of accounts

issued by the societies are detailed and complete.

7. The trading of societies is not confined to members, although in practice the amount of sales to non-members is small, owing to the fact that admission to membership is easy and that membership entitles the customer to double the rate of dividend on purchases that he would receive as a non-member.

8. The societies are with a few exceptions, formed under laws specially passed to meet the requirements of the industrial classes and not under the companies' Act as ordinary joint stock undertakings.

In trying to determine whether a given society is co-operative or not, the utmost that it is possible to do is to ascertain how far such marks of a co-operative society as those indicated above may be regarded as the predominant characteristics of the society in question. The Government of India have recognized this fact and have refrained in their legislation on co-operation from laying down any hard and fast rule as to the attributes of a co-operative society. From the beginning the principle has been upheld in India that any enactment regarding co-operation should be marked by the two characteristics of simplicity and elasticity. The more important of the features commonly recognized in a co-operative society are indicated in the Indian Act,[1] but it leaves at the same time room for

[1] Act II of 1912.

adjustment to local conditions and for the adoption of suitable developments in the co-operative movement of Europe. The only approach to a definition is contained in the preamble to the Act which describes its object as being 'to facilitate the formation of co-operative societies for the promotion of thrift and self-help among agriculturists, artisans, and persons of limited means,' and in the reference in Section 4 (*d*) to 'a society which has as its object the promotion of the economic interests of its members in accordance with co-operative principles.' The word, co-operation, itself is nowhere explained, except by means of a few scattered indications. One such indication, is contained in Section 43 (*r*) which empowers local governments to fix the maximum rate of dividend which may be paid by societies and thus 'prevent profits which should be employed in cheapening the services performed by the society from being diverted to the benefit of shareholders'[1] and another in Section 43 (*q*) which permits rules being framed for regulating the extent to which a society may limit the number of its own members so as to prevent it from becoming the monopoly of a few individuals. Similarly Section 5 and Section 43 (*a*) prescribe certain limits to the number and value of shares which a single person may hold in a society. Section 13 lays down that in societies based on unlimited liability each member shall have only one vote. This rule

[1] Government of India circular 13 C March 9, 1912.

does not apply to societies based on limited liability, where the question is settled with reference to local circumstances and feeling rather than to any fixed principle. Section 17 directs every society to have its accounts audited at least once a year by the Registrar of Co-operative Societies; Section 35 enables any considerable group of members to demand an enquiry into the circumstances of a society and Section 36 permits a creditor to initiate a special inspection of the books of a society under certain conditions. Section 31 suggests the necessity for restricting a societies' dealings with persons who are not members. Section 33 deals with the formation of a reserve fund and provides for controlling the division of profits among members 'by way of bonus or dividend or otherwise.' Finally Section 43 (*d*) provides for regulating the character of persons suitable for admission and the conditions under which they may be admitted.

In most countries which practise co-operation, there is a distinct body of laws dealing with the subject, which confer certain privileges, and impose certain obligations, upon societies registered under them. From this fact arises the necessity for indicating in some fairly clear manner, in the laws themselves, the character of the societies to which they are intended to apply, in order as much to encourage true co-operation as to discourage false. Nothing, perhaps, does more harm to the co-operative movement than the freedom which is generally allowed to business undertakings, which are

purely commercial in character, to assume the form and title of co-operative societies. In the first place, it deprives the movement of those legitimate advantages which the law of every country has thought fit to confer upon co-operative societies in their struggle against strong commercial rivals; and in the second place, when the title, co-operative, is assumed indiscriminately by societies, whether or not they truly answer to the description, the failures and weaknesses of spurious organizations are bound to react on the movement as a whole and discredit it in the eyes of the public. Perhaps the most conspicuous instance of such loose use of the word, co-operative, is to be found in the United States of America, where both in official documents and in books on the subject the student finds the term used with an almost amazing disregard of the features which elsewhere are considered indispensable to co-operation. Even in the United Kingdom there is at present no legal prohibition against an unwarranted use of the word. A glaring example is the Army and Navy Co-operative Stores in London. At one time they paid on their shares a dividend of something like 200%; and yet for all the world they are a co-operative society and by large numbers of people regarded as such. In India the earlier Act on co-operative societies (Act X of 1904) did not contain any restriction as regards the use of the word; but the experience gained in a few years after its introduction led to the insertion of a clause in the Act of 1912 which lays down

that 'no person other than a registered society shall trade or carry on business under any name or title of which the word co-operative is part without the sanction of the Local Government.'[1] In Germany the practice appears to be carried to the other extreme. The law of that country lays down an enormous number of minute requirements which co-operative societies must satisfy, with the result that not merely is false co-operation discouraged but true co-operation not seldom finds itself excluded.[2]

The most convenient way of discussing the outstanding problems of co-operation is to consider them in relation to the growth of the movement in England. Co-operation as an organized movement arose first in England, though some characteristics forms of it were developed in France, if not at the same time, at least soon after. Its most remarkable development in England has occurred in connexion with urban industry as distinct from agriculture. Though the former does not immediately concern us here, it must be remembered that the growth of agricultural co-operation, as well as of various forms of industrial co-operation in other countries, was inspired by the ideas and moulded to a considerable extent by the example of the English movement. Like many other economic forces of which the past century witnessed the rise in England, co-operation was the result to a large extent of what is

[1] Sec. 47. [2] Cahill, p. 30.

called the Industrial Revolution. It was the Industrial Revolution which led to the formation in England of a separate working class freed from the mediaeval barriers of custom and privilege and faced by the conditions of a new society against which freedom by itself could not avail, but only freedom combined with strength. The labourer was now free to move where he liked and turn his hands to any employment; but this freedom was subject to one great limitation. By what were known as the Combination Laws which were in force at this period, it was forbidden to workers to combine among themselves to raise wages and to secure by organized agitation the improvement of social and economic conditions. The labourer was free, but not free to make his freedom strong. The right of combination was not finally secured till 1824 when the old laws which forbade it were repealed; and from this period we may date the growth of the co-operative movement in England and also of trade unions and kindred labour organizations. The idea that the worker's welfare was very largely in his own hands and that by proper organization he could aspire to some extent to control industry was inspired and strengthened by the teaching of Robert Owen who is commonly and rightly known as the father of co-operation. Many of the specific movements which he started did not survive the period of early enthusiasms, but it cannot be doubted that each new phase of co-operation since his time has either directly or remotely

sprung out of the spiritual and intellectual seeds sown by him. Robert Owen died in 1858, having witnessed, as it seemed, the collapse of nearly all his cherished schemes, and himself discredited by reason of his unconventional and somewhat lax opinions on social and religious questions. But some fourteen years before his death, in the uninspiring surroundings of a dingy little street in a Lancashire town, there was founded the Rochdale Society of Equitable Pioneers, the definite starting point of the English co-operative movement. The story of the Rochdale weavers has been told often and told well; it would be useless to recapitulate the well known facts of that story. But we must stop to examine the ideas which, however unconsciously, entered into that experiment, because up and down the vast field of co-operation these ideas have a habit of breaking in constantly upon the attention of the student, and it would be well for him to clear his mind about them at the outset.

It has been pointed out that the essential character of the co-operative society founded by the Rochdale Pioneers was that it was based on the idea of production for use instead of production for exchange.[1] That is, the object of the society was to collect and dispense goods meant for the consumption of its own members and not for sale to outsiders. The twenty-eight flannel weavers who constituted the society

[1] Supplement to the *New Statesman*, May 30, 1914, Ch. I,

found by experience that the prices of provisions in the locality were too high for their limited means and they decided as a first step to start a shop of their own for supplying themselves and their families with ordinary household requisites. Their immediate object was to dispense with the retail trader and secure goods at wholesale prices. From this small beginning the co-operative store has now travelled a considerably long way. It now seeks not merely to dispense with the retail trader but by building warehouses and by instituting a service of agents abroad, to do away with the wholesale dealer and the importing merchants and commission agents. Besides these, it owns in some cases vast factories for producing goods required by its members and thus it is able to dispense with the ordinary joint stock producer. The interesting point about all this development is that it is a scheme of co-operation not by producers for the more economic production and marketing of the goods which they produce, but by consumers for the better production and purchase of the goods which they require for consumption. It starts not with the producer's but with the consumer's end of the industrial system. We might have expected that the twenty-eight weavers of Rochdale would more naturally have united for improving the production and sale of flannel goods. That would have been set to work as producers. But they did not do that. On the other hand, they set to work to cheapen those commodities which they required for their

ordinary daily consumption apart from their business as producers of flannel. The distinction is important and has a significant bearing on the whole co-operative movement. For the present it is sufficient to note that we have here one of those happy strokes of instinctive practical wisdom, in which the history of social movements in England so excels.

One result of starting the society for the benefit of its members as consumers rather than producers was the introduction of the system known as 'dividend on purchase.' To understand this, we must look somewhat more closely into the constitution of a co-operative store. A co-operative society of this kind "is an association which usually begins by the recruiting of a few hundred members, who promise to deal at the new store and who take single shares of a pound each which they pay for by small instalments. With the exiguous capital thus furnished, a shop is rented and a manager is engaged. The stock is at first limited to the articles of grocery in most universal demand, which are obtained either from enterprising wholesale dealers, or at the present day, if the committee is wise, entirely from the co-operative wholesale society. Prices are generally fixed at those ruling in the neighbourhood, the excess over wholesale rates serving to cover the expenses, allow for depreciation of plant, provide a reserve fund, and finally supply the 'dividend.' On making any purchase, however small, the customer receives a tin or paper ticket, stating

its amount. These are exchanged for others of higher denominations and eventually presented at the end of the quarter or half year, to be redeemed by the dividend. For the so-called 'profit' of the store—the proceeds of the loading that is put on the wholesale price of the commodities that the members in effect share out among themselves—is after payment of the salaries of the manager and shop assistants, and all other expenses, returned to the members in exact proportion to their purchases."[1] This is the system of 'dividend on purchase.' The dividend in a co-operative store differs from the dividend in a joint stock company in that the latter is paid on the share which a member holds in the capital of the firm while the former is paid on the value of the purchases which a member makes at the co-operative store.

Let us follow out the consequences of this difference. The main result is that it inspires the whole business of the society with an almost extraordinary sense of equality. It is not a society of producers, but a society of purchasers, that is, of persons, who themselves undertake to supply the goods they require. This characteristic of the society at once removes from its way a frequent and fruitful cause of social conflict, namely, the divergent interests of producers and consumers. It is true that the business is carried on by means of share capital contributed by members,

[1] Supplement to the *New Statesman*, May 30, 1914, p.3.

but the shares are so small as almost to be nominal and they are paid up by small monthly instalments which, after the initial payment, are often not actually paid up but simply set off against dividends due on purchases. There is here obviously little room for such a monopoly of capital as would lead to a divergence of interests between shareholders and purchasers. Besides, capital in a co-operative store is almost invariably paid by a fixed rate of interest at 4 or 5 per cent. The surplus, which varies with the ups and downs of business, goes not to the capital but as dividends on purchase. By making dividends payable on purchases and not on share, a powerful motive is supplied for the continual extension of the society on equal terms to all classes of the community, especially to the least prosperous. These may be called the economic results of the system. But its results on the constitution of the societies are equally interesting. If dividends were paid to members in their capacity as shareholders, it might possibly suggest itself as the most obvious thing to give each shareholder as many votes as he has shares in the society. But when they are paid not to shareholders but to purchasers, no such obvious solution is possible. The purchases that a member makes vary so largely from day to day that any attempt to assign a proportionate number of votes to each member is simply inconceivable. The only practicable solution is to put all the members on a footing of absolute equality as regards their voting

power—and this is what has actually happened in the co-operative stores. Any adult member who makes a purchase, however small, at the store receives by that very act an equal right to participate in the administration of the society with the member of longest standing.

Some four years after the founding of the Rochdale Society of Equitable Pioneers there was started in London a new experiment in co-operation by the group of men known as 'The Christian Socialists.' They were a body of young University men—of whom F. D. Maurice and Charles Kingsley are perhaps the best known names—who earnestly endeavoured to find a solution for the crying social problems of the day by rousing the churches to a livelier sense of their duty to society. The Chartist Movement had failed, and in the disappointment of that failure, men in growing numbers had been contemplating an appeal to force as the only possible remedy. It was at this time that 'the Christian Socialists' came upon the scene with their prescription of the 'Self-Governing Workshop.' The idea of the 'Self-Governing Workshop' came originally from France from the co-operative workshops established there at the time of the Revolution of 1848. It was a form of co-operation which was undertaken neither on behalf of the workers as such nor on behalf of the consumers as such, but consisted rather in an endeavour to make the workmen their own capitalists. They were to own the capital, to control the business, and to share the profits. It was a combination of

workers controlling the means and results of production. In other words, it was an association of producers as the co-operative store was an association of consumers. The difference between these two types of co-operative association—association of producers and association of consumers, must be noted, because for a considerable time it has been one of the standing controversies in the co-operative movement which of these two types supplies the right model for the development of co-operation. The real difference is twofold—a difference of object and a difference of constitution. The object of an association of consumers, as we have seen, is production for use, while that of an association of producers is production for exchange. Associations of consumers seek 'to eliminate profit in the ordinary sense, returning to the customer as quarterly or half-yearly dividend the surplus remaining over between wholesale and retail price when all expenses have been paid'; whereas associations of producers are primarily combinations of workers seeking to eliminate not profit but the need for a capitalist employer so that workers may receive 'all the net profits arising from their labour.'[1] The difference of constitution consists in the fact that an association of consumers by its very nature tends to equality, while an association of producers by its very nature tends to inequality and monopoly. In a co-operative

[1] *Industrial Co-operation*. Catherine Webb. 1904. Manchester. p. 26.

store where dividends are paid on purchase, there is no temptation for any person to prevent other persons from coming to the store to purchase. On the other hand, there is every inducement to extend the membership as widely as possible. In an association of producers, where the workers are shareholders and dividends are payable on shares, the body of shareholders at any given time, are in a privileged position; and a privileged position often naturally breeds a spirit of exclusiveness, a desire to prevent the privileges from being extended to a large number.[1]

It was largely to this form of association in which the workers themselves controlled the instruments and results of production that John Stuart Mill looked forward in his oft-quoted passage on co-operation: 'Hitherto,' he said, 'there has been no alternative for those who lived by their own labour, but that of labouring either each for himself alone or for a master. But the civilizing and improving influences of association, and the efficiency and economy of production on a large scale, may be obtained, without dividing the producers into two parties with hostile interests and feelings, the many who do the work being mere servants under the command of the one who supplies funds and having no interest of their own in the enterprise except to earn their wages with as little labour as possible. The speculations and discussions of the last fifty

[1] *Co-operative Movement in Great Britain*, B. Potter, 1899, p. 40.

years, and the events of the last thirty, are abundantly conclusive on this point. If the improvement which even triumphant military despotism has only retarded, not stopped, shall continue its course, there can be little doubt that the status of hired labourers will gradually tend to confine itself to the description of work-people whose low moral qualities render them unfit for anything more independent; and that the relation of masters and work people will be gradually superseded by partnership in one of two forms—in some cases, association of the labourers with the capitalists; in others, and perhaps finally in all, association of labourers among themselves.' And then having quoted various actual cases of co-operation, Mill added: 'The form of association, however, which, if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief and work people without a voice in the management, but the association of labourers themselves on terms of equality collectively owning the capital with which they carry on their operation and working under managers elected and removable by themselves.'[1] Mill was by no means alone in the anticipations which he formed of the future of an industrial society based on a system of co-operative associations of producers. These anticipations were but the reflection of a spirit of confident hope which was then in the air that co-operation in

[1] *Principles of Political Economy*, Book IV, Ch. VII. Sec. 2.

production was a sure remedy for most ills of the present industrial system.

But these anticipations have, on the whole, it may be said, proved false. In no country in Europe where the co-operative movement has made headway do associations of producers on the lines of the self-governing workshop form anything like a considerable proportion of the industrial system. In the British Isles, before the war, out of a total of 1,500 co-operative societies in the manufacturing industry, not less than 1,400 were associations of consumers, which included a membership of 3 millions of working-class families and dealt in goods of the annual value of 84 million pounds. But the association of producers numbered not more than a hundred, and of these it is impossible to tell how many really followed the model of the self-governing workshop.[1] The cause of the relative failure of associations of producers has been the subject of much speculation. The failure generally occurs in one of two ways: either they stick to the co-operative principle and fail from a business point of view or they succeed from a business point of view and abandon the co-operative principle, becoming in the process mere joint stock companies. With regard to the first, there are several circumstances which make it almost inherently difficult for an association of workmen to undertake the control of production. The chief reason appears to be the absence of discipline

[1] *Report on Co-operative Societies in the United Kingdom.* 1912. Cd. 6045. p. 12.

which necessarily occurs in a business where the manager depends for his election and continuance in office on the suffrages of the workmen whom he is required to supervise. In the severe conflict with long established commercial firms which a co-operative business has to encounter, at least in its early stages, it is often necessary to take swift decisions and strong measures, which are well-nigh impossible if the managing director cannot enforce his authority without regard for sentimental and political considerations. The second difficulty is what may be called 'the want of custom.' A knowledge of the market is a difficult thing to acquire and demands much skill, training and experience—of which workmen are generally devoid. This difficulty does not exist in an association of consumers where the store is run by the consumers themselves and has therefore a well defined market ready to hand. What is involved here is not merely ignorance of the market; even if an association of producers did know the requirements of the market, it would not be easy to command the necessary equipment for producing them. What happens is that in the case of commodities required by the mass of the people they cannot produce them in sufficient quantity and at a cheap cost, while in the case of those relatively rare things which are in demand only by wealthy persons, their trade mark is not so widely known as to attract the right class of customers. Lastly, there is the lack training in economic organization and management which makes it

difficult to find among the ranks of the workers themselves the type of man who could direct a large business and mould it to changing needs and conditions. Most of these considerations may be summed up by saying that the difficulty which confronts associations of producers is really 'the supersession of the employer'.[1] But there is another way in which these associations may fail. It is that occasionally they succeed so well in business that they fall a prey to the temptation of amassing profits and forgetting the higher aims of co-operation. It happens thus. The workers who formed the original membership of the society, observing the possibility of increased profits on their shares, decide to close the list of shareholders against further accessions. Then the shareholders finding themselves in a position of monopoly and increasing prosperity, refuse to remain as workers in the business in which they hold shares. A class of employers is thus slowly evolved and a corresponding class of wage earners—with the result that 'sweating' and all those other industrial diseases which co-operation set out to cure, come back in full swing—if at all, slightly worse for the fact that the new race of employers were the other day workers themselves suffering from the self-same ills.[2]

The failure of the association of producers led to the formation of a new type of co-

[1] *The Economic Journal*, 1892, pp. 448–56, art. by L.L. Price.
[2] *Political Economy*, Charles Gide. Translated by Archibald, 1914, Harrap, pp. 64–52.

operative society which, it was believed, would secure all the advantages of an association of producers without any of its defects. This new type is called *profit-sharing or co-partnership*. The two terms are often used synonymously, but they are not strictly identical in meaning. Profit-sharing, in the words of an excellent writer on the subject, is 'an arrangement under which an employer agrees with his employees that they shall receive, in partial remuneration of their labour, and in addition to their ordinary wages, a share fixed beforehand in the profits of his business.'[1] The object of the arrangement is obviously to enlist the interest of the workers in the business and at the same time to obviate the dangers which may arise if the workmen become their own managers. What is strictly called co-partnership goes a step further than this. It gives the workers a share not merely in the profits, but in the administration and responsibility of the business, thus raising them to a fuller degree of partnership than mere profit sharing. The advantages generally attributed to copartnership are these: first, that it improves the moral status of the working man by changing him from a wage-slave into a kind of partner; secondly, that it raises the productiveness of the business by the inducement offered to the labourer to put forth his best strength; thirdly, that it improves the material position of the worker by the addition to his wages of a share of the profits; and lastly, that it creates a more

[1] D. F. Schloss, *The Economic Journal*, 1891, p. 292.

lasting bond between employer and employed and prevents disputes and unemployment.[1] It is well to remind ourselves at once that this is not the labourer's side of the case but that of the wellmeaning reformer, between whom and the generality of workmen there is not as full an understanding as might be wished. On the whole, it looks as if co-partnership has made but a feeble appeal to the more responsible sections of labour. But it is too early to decide, one way or the other, on the merits of the system. So far it certainly appears that every material argument against its adoption has been not so much that the system itself has failed as that it has not been given a fair trial. Misunderstanding between labour and capital—the result of many years of hostility and the fear that private undertakings between employers and labourers in individual businesses may impair the solidarity of trade unions, have prevented a thoroughly fair and whole hearted adoption of co-partnership. The usual arguments from the workers' point of view seem sufficient evidence of this. 'Their main point is that co-partnership has not conferred any advantage commensurate with the right to strike work. It is urged, for example, that the actual share of the profits is small and that it is often accompanied by a reduction of wages or a lengthening of the hours of work ; that in many cases it represents not a higher rate of remuneration but simply payment at the old rate for the additional energy spent

[1] *Political Economy*, Charles Gide. Translation by Archibald 1914, Harrap, pp. 643–8.

by the worker; that the rate of profit is arbitrary because the amount of capital in the business, in reference to which the rate is calculated, is a factor often known only to the employer."[1] All these considerations, however true, tend to show not that co-partnership as a principle has failed but that there has been really no co-partnership in these cases at all.

Our attention so far has been confined to industrial co-operation. It is time now to turn to agriculture. It may be repeated that it has been thought necessary to deal at this length with non-agricultural co-operation, primarily for two reasons—first, because the birth place of the co-operative movement, for all practical purposes, is England, and there its greatest successes have been achieved, not in agriculture, but in the manufacturing industry; and secondly because, taking Europe as a whole, agricultural co-operation has been a later growth than industrial co-operation, and in some, if not most, of its principal developments, the problems of the former bear a not imperceptible resemblance to those of the latter. The necessity for improved organization in agriculture was brought home during the past century in European countries by certain circumstances which it is possible to trace more or less clearly. First comes the immense improvement which took place in the processes and machinery of cultivation as a result of scientific discoveries, especially the introduction of artificial fertilisers.

[1] Supplement to the *New Statesman*, February 14, 1914, ch. IX.

and improved agricultural implements. A number of trusts and rings were formed for their manufacture by those who could afford the necessary capital; and the process of negotiation between them and the millions of small farmers fell into the hands of a huge army of dealers and middlemen who missed no opportunity to grow rich at the expense of the farmer. The only remedy for the farmer lay in combined action. Secondly, the sudden and startling improvements in the means of communication which resulted from the discovery of steam and electricity caused an enormous shrinkage of the world and brought the old countries into acute trade conflict with the new world. This competition was perhaps most keenly felt in agriculture. The reason of this was that the virgin soil of the new world lent itself to cheaper and more productive cultivation than the tired and exhausted soils of European countries; and the discovery of refrigeration methods made it possible to convey perishable products across long distances. From this unequal conflict the European farmer had but one way of escape and that was to organize agriculture. Thirdly, there is the somewhat extensive transition from old to new products of agriculture. The cultivation of wheat, owing to the circumstances referred to above, was rendered more and more difficult and the attention of farmers was directed increasingly to other forms of agriculture, especially to the rearing of cattle and poultry and to market gardening and fruit culture. The transition

was facilitated by the growth of large urban communities. In the days when people lived on the land they could raise their own milk and butter and fruit. But this was now impossible, and an additional opportunity was thus put into the hands of the small holders who were still left. One result of this transition was to render the path of agricultural organization less difficult. [The farmer as a rule is a difficult person to move from his accustomed life.] But when he was driven by the force of circumstances to change from old to new kinds of agricultural produce, the moment was found propitious also for inducing him to adopt organized methods of cultivation. Another result was that these forms of agriculture were specially suited to small cultivators and the transition opened out for them a distinct field at least for the time being. But if they were to retain this field against competition it was necessary that they should combine in regard to such matters as marketing, credit and the purchase of necessaries. Lastly, it was impossible that agriculture could long resist the change which had come over other forms of industry in the direction of business on a large scale. Agricultural co-operation, in a sense, was the application to rural matters of the methods of business which the industrial revolution had set going in other branches of industry.[1]

The main purpose of agricultural co-operation in the various forms in which it is now practised

[1] *Agricultural Organisation*, E. A. Pratt, 1914, P. S. King & Son. ch. 1.

may be described roughly as the elimination of the 'middleman.' The small farmer ordinarily shows a lack of business ability which has become proverbial; and as a result he finds himself cut off, on the one hand from his raw materials, and on the other from the market for his produce. In both cases he has been reduced to a state of absolute dependence on a long chain of agents or middlemen. The consequence is that as a rule the small farmer has to buy his raw materials such as seed, manure, etc., from a retail trader and deliver the produce of his farm for sale to a commission agent. This severance from the wholesale dealer at both ends of the business imposes on the farmer a double payment of retail commission which cannot but be a serious drag on his business. In a less advanced state of society it would be possible for a cultivator to put himself in touch easily both with his customer and with the supplier of raw materials. But with the growth of industrialism and the consequent shifting of the centres of population from villages into large cities, a wide gulf necessarily grew up between the farming community and the mass of consumers. This gave the middlemen their opportunity, of which they have taken the fullest possible advantage. The aim of co-operation is to make the small farmers their own middlemen by organizing combination among them on a co-operative basis to undertake various processes connected with their business. There are two kinds of economy secured by co-operation: first in

regard to the cost of production, and secondly in regard to the quality of produce. With regard to the cost of production, there is first the reduction which occurs in the price of seed, manure, implements, capital and other agricultural necessaries, when a number of farmers combine for their purchase and so dispense with the retail trader. There is also the economy which results from production on a large scale when farmers join not merely in purchasing agricultural necessaries but in carrying on the actual process of agriculture, though such cases are undoubtedly rare. Besides, the considerable additional strength which combination brings them as a class enables farmers to negotiate with the wholesale dealer of agricultural requisites on equal terms and to insist that the articles which they supply are satisfactory in quality. So in the sale of agricultural produce, direct dealing with the wholesale trader by means of a co-operative association secures the farmer a fair price for his produce. At the same time where a number of people manufacture and sell their produce in common, it is possible for them to sell under and work up to a common trade-mark which would ensure to the distant customer a certain recognized standard of quality. There is nothing perhaps that so hinders the individual cultivator in his dealings with the market as the failure to bring his goods under some well-known brand which the mass of customers can readily recognize as denoting a certain level of quality. Agricultural co-operation has been

tried in Europe principally in the following directions: (1) the purchase of raw materials and instruments required for cultivation; (2) the manufacture and sale of agricultural products; (3) the organization of mutual credit to facilitate the supply of capital; (4) Mutual insurance against agricultural risks; (5) combined bargaining for the reduction of transport charges; (6) the establishment of associations for the improvement of livestock; and occasionally (7) co-operative associations for leasing and cultivating land.

If we consider the growth of agricultural co-operation in the different countries of Europe, the first thing that strikes us is how little of it there is in England, the birthplace of the co-operative movement. The reason is probably to be found in the system of land tenure which prevails in England. The land is divided mostly among large landowners and leased by them to large farmers. The need for combination is, therefore, not felt with the same intensity as among small holders, who cannot command sufficient economic resources individually. Another reason generally given is that the English farmer has an instinctive dislike to combine with his neighbours. If this feeling is stronger among English farmers than among farmers of other countries, it is probably because the necessity for combined effort has not been felt among them with the same urgency. The growth in recent years of the movement towards small holdings, if it persists, may provide a larger field for the

introduction of co-operative societies in England. It is interesting to observe that one of the first definite steps which it was decided to take in view of the social and agricultural situation produced by the war was to start experimental colonies of small holdings on a co-operative basis. Its advocates evidently believe that it will pave the way for a greater application of co-operation in English agriculture, but it must be remembered that some of the conditions created by the war do not appear altogether favourable to small holdings.

In Germany, where agricultural co-operation first took its rise, its progress, judged by statistics, has been considerable. Of the total number of rural co-operative societies in Germany, by far the largest proportion is made up of credit societies—the earliest form of agricultural co-operation. In 1913, Germany possessed approximately 26,000 societies and of these nearly 17,000 were credit societies.[1] There is no doubt that the immense growth of agricultural co-operation in Germany is to be traced above all to the extraordinary spirit of organization which has been infused into the movement. The State has taken a leading part in spreading the movement but it has been helped also by the energetic support of unofficial agricultural societies, by teachers in rural schools, by educational institutions generally, by large landowners and by representatives of the Church. An important

[1] *Cahill*, p. 63.

circumstance which has contributed to the success of the organization is that Germany is predominantly a country of small holdings. In 1913 there were more than 5 million holdings varying in size from 1 to 45 acres, while those which exceeded 45 acres in area only totalled about 286,000.

The co-operative movement in France had a peculiar origin. The French Legislature in 1884 passed a bill for legalizing associations of industrial workers for the defence of their common interest. While the bill was passing through the Senate, an agricultural member on hearing the words 'trading and industrial' called out from the back benches of the house 'and agricultural!' The amendment was duly accepted; and the result has been the growth of the *Syndicats Agricoles* of France. These associations differ from co-operative societies of the usual type in two respects. First, they are not trading bodies under the law and as a rule are not allowed to carry on business in the usual sense of the word. The only form of business which they undertake is the purchase and distribution of agricultural requirements as this is not considered trading in the commercial sense of the word. But the practice has grown up of starting co-operative societies side by side with the *syndicats* and under their control for such purposes as dairying, wine-making, etc. The second difference is that the *Syndicats Agricoles* do not possess any share capital; most of their capital is raised by annual subscriptions from the members who

include all persons directly interested in agriculture, even large landowners.

Agricultural organization in Belgium was largely inspired by the French system. An interesting fact about Belgium is that the growth of co-operation there has been stimulated by the conflict between the socialist party and the Catholic Church. The socialist party used co-operation as a means of organizing workers in the towns with the result that the Church in order to maintain its influence against socialism proceeded to organize co-operative societies among the rural population who had been untouched by the socialist propaganda. The same kind of conflict between political and religious forces has entered into the co-operative movement in Italy, where societies are found divided into Catholic, liberal, and neutral, and where often in the same locality all three types are met with, necessarily overlapping one another. Perhaps the most notable fact about Italy is the work of M. Luzzatti, the famous organizer of the type of co-operative credit societies associated with his name.

Two countries which have claimed a great deal of attention from co-operators are Denmark and Ireland. In one respect they resemble each other—and that is that in both countries the vast majority of co-operative societies are engaged in raising what is called breakfast-table produce—butter, cream, eggs, and bacon. In most continental countries agricultural co-operation has originated in the formation of

societies for mutual credit, so much so that many people imagine that to start co-operative credit societies is invariably the first step in agricultural organization. The experience of Ireland and Denmark shows that this is not necessarily true. In Denmark even now co-operative credit societies are almost entirely absent, and in Ireland, though they have grown up rather considerably in recent years, they were preceded by co-operative creameries and dairies, and in extent and importance these easily outdistance the credit societies. The explanation is this. The severe competition in the corn trade with newly opened countries compelled early both Denmark and Ireland to divert their energy from raising crops to rearing cattle and poultry. Between these two forms of agriculture there is one great difference, namely, that a farmer who raises crops has often to wait for the periodic harvest to realize his capital, while a farmer who is engaged in rearing cattle and poultry has a continual supply of produce which enables him to raise money from time to time without pledging his credit for a loan. In the latter case obviously credit societies are not such a great necessity as in the former.[1] Two special circumstances in Denmark are regarded as having contributed to the great success of agricultural co-operation in that country. The first is the system of education imparted to the peasantry in what are known as the rural high schools. In these schools peasants, between

Co-operation, *At Home and Abroad*, C.R. Fay, p. 75.

eighteen and thirty years of age, receive education as boarders, the men for five winter months and the women for three summer months. The interesting point about the education is that it has little to do with the science and technique of agriculture. The object is to give a general awakening to the mind by teaching 'history, literature, language, and the songs and proverbs of the people' and to strengthen character by the infusion of a strong religious spirit. The wisdom of this system has been justified by the undoubted success of Danish agriculture and by the intelligence and resourcefulness of the Danish peasant—a curious side-light by the way from an unexpected quarter on the present journalistic duel between science and the humanities! Another circumstance which has helped co-operation in Denmark is the distribution of the land, through the assistance of government, among small freeholders and the organized help given to them in the way of expert advice and material support.[1]

In one respect, however, there is a marked difference between agricultural organization in Denmark and in Ireland. In Denmark it is a purely business movement, which was started with the sole object of enabling the farmer to make a good living out of his business and to withstand the powerful competition of foreign countries. There was no intention to regard agricultural co-operation as part of a scheme

[1] Report of the Recess Committee in Ireland, 1896, p. 145.

for building up a rural civilization and as a first step in the fight against the evils of an over-industrialized society. But this was distinctly the leading idea in the mind of Sir Horace Plunkett the celebrated founder of the Irish Agricultural Organisation Society. In nothing is this difference between the two countries brought out more clearly than in the character of the reports and other literature issued by them. Of the Danish movement we appear to have hardly any really satisfactory information published by the movement itself. The statistical statements are often scanty and there is seldom any attempt to elucidate the problems or ideals of co-operation. There is in fact an almost entire absence of propaganda work in connexion with the Danish movement, which is such a remarkable feature of Irish co-operation. Two facts must be remembered on this point in favour of Denmark. The first is that Denmark is a predominantly agricultural country and the evils of industrialism were not felt there sufficiently to suggest the idea of creating a rural civilization to counteract them. Ireland, on the other hand, though mostly an agricultural country possesses also a large industrial area while her political inclusion in the United Kingdom brought her into touch with the highly developed industrial societies of England and Scotland. The second fact is that the excellent work done by the rural high schools of Denmark saves the necessity for such active propaganda work as has had to be carried on in Ireland. It

is not, then, any disparagement of the splendid progress of the co-operative movement in Denmark to suggest that in spite of much resemblance between Ireland and Denmark, Sir Horace Plunkett's work in keeping alive the higher aims of the co-operative movement by means of the Irish Agricultural Organisation Society and the Co-operative Reference Library invest Ireland with an exceptional degree of interest for the student of co-operation. In Germany the beginnings of the co-operative credit movement were marked to a large extent, especially under Raiffiesen's influence, by a conscious desire not only to improve business but also to secure, in Professor Marshall's words, 'the production of fine human beings.' But the subsequent enormous growth of the movement has tended to throw into the shade what may be called the spiritual aspect of co-operation in Germany. Precisely the same thing has happened to the industrial movement in England. That great outburst of spiritual enthusiasm with which the names of Robert Owen and of the Christian Socialists will be for ever associated was allowed long ago to die away; and however much we may applaud the growth of the vast co-operative stores, it must not be forgotten that their very success is apt to obscure the fact that co-operation is business but not mere business. The interest of the Irish movement lies chiefly in the fact that Sir Horace Plunkett is the greatest living example of an apostle of co-operation

considered both as a mode of business and as a spiritual message.

One great contribution which Ireland has made to the co-operative movement is the idea that, rightly guided, agricultural co-operation may be used as the means of creating a new social organism in rural areas, based on common effort and interest. Such an organism may prove of no small help in providing the basis of a good system of rural self-government and of a healthier and richer social life. In India the growth of a stronger communal feeling in villages which have come under the influence of co-operation has been one of its most marked results. In any attempt to make greater use of this feeling for purposes of local administration, the history of rural legislation in Ireland since 1899 may prove not a little suggestive. The central feature of that legislation is that a substantial extension of State assistance to agricultural organization and the introduction of a wider system of local self-government were conceived practically at the same time as parts of a single scheme of rural amelioration. Sir Horace Plunkett's own words on this aspect of the co-operative movement are worth quoting: 'These local associations are ceasing to have one special purpose or one object only. They absorb more and more of the business of the district. One large, well-organized institution is being substituted for the numerous petty transactions of farmers with middlemen and small country traders. Gradually the society becomes the most important institution

in the district, the most important in a social as well as in an economic sense. The members feel a pride in its material expansion. They accumulate large profits which in time become a kind of communal fund. In some cases this is used for the creation of village halls where social entertainments, concerts and dances are held, lectures delivered and libraries stored. Finally, the association assumes the character of a rural commune where, instead of the old basis of the commune, the joint ownership of land, a new basis of union is found in voluntary communistic effort. A true social organism is thus being created with common human and economic interest, and the clan feeling, which was so powerful an influence in early and mediaeval civilizations, with all its power of generating passionate loyalties, is born anew in the modern world. . . . The rural commune and the very small states exhibit the feeling of human solidarity in its most intense manifestations, working on itself, regenerating itself and seeking its own perfection. Combinations of agriculturists, when the rural organization is complete, recreate in a new way the conditions where the social instincts germinate best, and it is only by this complete organization of rural life that we can hope to build up a rural civilization and create those counter-attractions to urban life which will stay the exodus from the land.' [1]

Of the various forms of agricultural co-operation which prevail in Europe the most

[1] *The Rural Life Problem in U.S.A.* Plunkett, 1910, pp. 128–29.

successful have been admittedly co-operative credit societies and co-operative supply and sale societies, as in Germany and other countries on the continent, and co-operative dairies as in Denmark and Ireland. It is usual to classify these societies as associations of producers, but it may be pointed out that they are not what may strictly be called 'associations of producers.' An 'association of producers' or 'self-governing workshop' is a combination of workers for the common ownership and control of the instruments of production, working under employers 'elected and removable by themselves.' In this sense none of the types of co-operation mentioned above may be described as an association of producers. In each case the ownership and management of the means of production remain mainly in the hands of the producers themselves as private individuals. It is only in regard to a part of their business that they surrender their rights of property and control to an association. In supply and sale societies, for example, the principal business of production remains in the hands of the individual members. It is the individual members who control the business of cultivation and own the capital and implements by which the cultivation is carried on. The society is entrusted with the right of control only to the extent necessary for the supply of agricultural requisites or the sale of agricultural produce. Similarly in the case of a credit society, the members continue as individual producers, surrendering their

rights to the society only so far as is required for the supply of the capital necessary for the business. And this is true also of co-operative dairies. The main business of the individual farmer who joins a dairy society is to rear cattle for the purpose of producing milk. He owns his cattle and he himself controls the production of his milk. His connexion with the society simply consists in the fact that he uses its services for turning his milk into butter, cheese, and cream, for marketing these products and for the purchase of fodder for his cattle. In none of these cases do we find that wholesale democratization of ownership and control which was the distinguishing feature of the 'association of producers' or 'self-governing workshops.' It is impossible to classify these societies distinctly under either of the two well-known categories of associations of producers and associations of consumers. But the resemblance, it may be suggested, is rather to an association of consumers than to an association of producers. In all these agricultural societies, people become members, exactly as in a co-operative store, for supplying themselves jointly with some of the things they require. The difference is that in a co-operative store the things supplied are ordinary household requisites, what may be called consumers' goods, whereas in these agricultural societies the things supplied are generally producers' goods, raw materials in a supply society, capital in a credit society, purchasing power in a sale society, and saleable goods in a dairy. The

contention seems perfectly tenable that agricultural producers come into these societies not in their capacity as producers but rather in their capacity as consumers, and therefore these societies are rather associations of consumers than associations of producers.

It is necessary to emphasize this distinction because of the somewhat persistent belief that associations of producers have failed in the sphere of manufacturing industry but have succeeded marvellously in agriculture. The truth appears to be that in neither sphere has it been a real success. All the difficulties which we have noticed in the case of associations of producers in industrial co-operation hold good in agricultural co-operation as well. Lack of discipline, ignorance, and inadequate organization, are defects which are found quite to the same, if not a greater, extent among small farmers as among industrial workers, and the wholesale supersession of the capitalistic employer in production seems likely to be attended by the same unpromising results in manufacture as in agriculture. The success of co-operative dairies and credit and supply societies must not be allowed to lead us astray because they are not in reality associations of producers—a fact which must be kept in mind in considering the progress of agricultural co-operation. Associations of producers there have been in agriculture but their experience can lend but little encouragement to those who still believe in their ultimate success. The idea of establishing self-governing communities on

land was part of Robert Owen's scheme for regenerating society, and there have been several experiments in the United Kingdom in co-operative farming since the early years of the nineteenth century, nearly all of which have failed for one reason or another. The best known experiment was at Rathlahine in County Clare, Ireland, in 1831–3. The farm was 618 acres in extent and the labourers numbered 28 men, 12 women and 52 children. Subsequent admissions to membership were by ballot. The landlord was president and reserved to himself a power of veto. But subject to this, the farm work was under the management of a committee elected by the labourers themselves. For a time the scheme appeared to make good progress, but it was brought to a sudden end by the disappearance of the landlord under somewhat mysterious circumstances. Recently a great many undertakings, which call themselves co-operative farms, have come into existence, but most of them are merely farms attached to co-operative stores. They are worked like any ordinary business and are co-operative only to the extent that they are owned by a co-operative store.

The future of agricultural co-operation seems to lie in two directions—first, in associations of small holders who work as individual producers, combining to provide themselves with such things as they require for the purposes of their business, and secondly, in large industrialized farms worked on the principle of co-partnership. If we regard the first as

associations of consumers, then we may say that alike in agricultural and industrial co-operation, associations of consumers, and co-partnership societies appear to embody the hopes of the co-operative movement. What place will be found in European agriculture in the future for small holders is a question which lies beyond our province. No problem in agricultural economics has been discussed with greater vigour and ingenuity than the relative value of large and small holdings, but it is no nearer a solution to-day than at any time before. Several large questions are involved here. Is it really true that there are varieties of agricultural produce like fruit and vegetables, which are better cultivated by small holders than by large farmers? If it is true, is it necessary that these small holders should be absolute owners of the land or will it do to leave them in the position of tenants? Can the advantages of ownership be secured just as well by long term tenancies under the direction and ownership of public bodies? Is it true that it is to the moral advantage of the rural population to put them in possession of small bits of land which they may call their own, although it may mean a precarious livelihood for the farmer and 'sweating' for the members of his family? Is there greater virtue in 'the joy of possession,' as in the case of a farmer settled on his own land, than in a sense of economic security, such as an agricultural labourer feels who is employed at a fixed rate of wages on a large, industrialized farm?

Which should be the dominating consideration in agriculture—the national food supply or the welfare of the agriculturist, in cases where they conflict? None of these questions can be answered here. It can only be said that for a long time to come we have to reckon with small holdings whatever direction the course of academic discussion may take. So long as there are cases where for one reason or another large farmers do not think it worth their while, or feel able, to take up the cultivation of certain agricultural products; where the conveniences of a good and accessible market exist; and where there is a possibility that the occupant of a small holding may supplement the living which he gets off the land by some other means of subsistence, so long small holdings will remain and so long it would be necessary to consider the circumstances under which they may best be carried on. Of these undoubtedly co-operation is one of the most important because it gives them to a considerable extent those advantages which the big farmer obtains from doing business on a large scale.

The case for the large, industrialized farm, as opposed to small holdings has become stronger in England since the war. The developments of submarine warfare and the possibility that a few enemy cruisers at large may cause much dislocation of over-sea trade have helped to emphasize the importance of growing a sufficient food supply at home. And there seems to be a growing body of authoritative opinion in the country which finds the

solution of the food problem in production on a large scale, involving the application of industrial methods to the cultivation of extensive farms. To those who hold this view, the right way of applying the principles of co-operation to agriculture is by arranging that there should be a division of profits and of management between those who direct the farm and those who work on it, and not by combining a number of small, individual cultivators for objects connected with their business.[1] Co-partnership in agriculture is no new idea. In the earliest experiments in co-operative farming in modern times, as far back as 1830, we find attempts to bind the agricultural labourer to the farm by giving him a definite interest in the profits and management of the farm. Various interesting experiments have been carried out recently in England in the application of co-partnership to agriculture. It is too early to discuss the merits of co-partnership as a scheme of agricultural organization by reference to the results of these experiments. On the whole the results are considered promising by critics who, though biassed in favour of the scheme, are nevertheless well able to judge. They notice 'less friction and more interest in the work', 'more willing service' and 'perhaps a greater readiness to accept new methods' on the part of the labourers; a high degree of general efficiency

[1] *The Edinburgh Review.* April 1916, Art. by C. S. Orwin. See also *Agriculture After the War* by A. I. Hall, 1916.

in the farming; and a certain impetus to works of social amelioration in the locality.[1] Whether co-partnership is destined to a fair and whole-hearted trial in agriculture will depend very much on the temper of employers and workers; but in view of the fact that the atmosphere there is less burdened with bitterness and mutual jealousy, it is possible to hope that more practical good may result from co-partnership in agriculture than in the sister industry.

[1] *Journal of the Board of Agriculture*, 1913–14, pp. 206–11.

SECTION I.

21 ... COIMBATORE

Summary of Legislation

Preliminary Inquiries. Agricultural co-operation in India in its modern form is of recent origin. The inspiration of the movement came almost entirely from Government, and its remarkable progress has been in a large measure due to the energy and wisdom of the officials who have guided it. Tentative proposals for starting an agricultural bank were made in the Bombay Presidency as far back as 1883. But the first definite attempt to introduce some form of co-operation into agriculture was made by the Government of Madras in 1892. In that year they appointed one of their senior officers, Sir Frederick Nicholson, to study the methods of co-operation which prevailed in Europe and to report how far they were applicable to Indian conditions, especially in the Madras Presidency. Sir Frederick Nicholson after an extensive investigation produced a valuable report describing in detail various systems of co-operation in Europe together with a careful account of agricultural conditions in Madras from the point of view of rural indebtedness. Indebtedness was the problem which chiefly occupied the attention of the Madras Government when they initiated this enquiry; and throughout the subsequent history

of agricultural co-operation in India, it will be found that the main purpose has been the relief of rural indebtedness by establishing co-operative credit societies. All other forms of agricultural co-operation are still in a state of rude beginning in India, and the number of such societies is inconsiderable compared with credit societies.

Reports by Sir F. Nicholson and Mr. H. Dupernex. Sir Frederick Nicholson's main proposal was to start rural societies, more or less on the lines of the Raiffeisen societies of Germany, for the provision of credit on reasonable terms and for the development of thrift among the rural population. His proposal which was received on the whole with approval by the local government was, at the instance of the Government of India, circulated among the other provincial governments with a view to similar action by them. For some years, however, nothing definite was done. In the meantime a little book on People's Banks for Northern India was published by a member of the United Provinces Civil Service, Mr. H. Dupernex, in 1900. This book unlike Sir Frederick Nicholson's report was written in a popular and easy style, devoid of detail and plausible in argument. It embodied the results of an enquiry which Mr. Dupernex conducted in the United Provinces at the instance of the Lieutenant Governor, Sir Antony Macdonnell, an enquiry which was somewhat similar to that undertaken by Sir Frederick Nicholson in Madras but of much more limited scope. The

book attracted a great deal of notice, chiefly owing to the fact that its appearance coincided with the severe famines which occurred in different parts of India at the end of last century. Lord Curzon was then Viceroy of India, and the whole subject was referred by him to a Committee presided over by Sir Edward Law, the Finance Member of the Government of India.

The Co-operative Credit Societies Act, 1904. The Committee recommended the introduction of a special law to facilitate the promotion of co-operative credit societies. An act for the registration of joint stock companies had been in force; but its numerous and elaborate provisions made it unsuitable for the simple conditions of agricultural life. Besides, it was felt necessary that certain special privileges should be accorded to co-operative societies which were not called for in the case of joint stock banks and that provision should be made for some separate form of government machinery for inaugurating and guiding the new movement. Accordingly, the Co-operative Credit Societies Act was passed in 1904. The main provisions of the Act were these. A society registered under it consisted of ten or more persons above eighteen years of age living in the same locality. Societies were divided into two classes, rural and urban, four-fifths of the members of a rural society being agriculturists and the same proportion in an urban society being non-agriculturists. In a rural society the liability of members for debts

incurred by the society was as a rule unlimited. In both classes of society there was to be a reserve fund. In a rural society all profits went into the reserve fund, provided that when the fund had attained a certain proportion to the total liabilities, further profits, not exceeding three-fourths of the total, might be distributed among the members by way of bonus. In an urban society there was no restriction with regard to the payment of profits except that at least a fourth of the annual profit was to be credited to the reserve fund. Money might be lent by societies on real or personal security but not ordinarily on the security of movable property. Societies were subject to audit and inspection by officers deputed by Government, and were exempt from certain legal imposts such as the income tax, stamp duties and registration fees, and also from the share capital of any member being seized by a court of law for payment of debts.

The Co-operative ~~Credit~~ Societies Act, 1912. A few years after the Act was put in force it was found that it required amendment in certain important particulars. There was an almost phenomenal growth in the number and activity of co-operative societies between the years 1906 and 1911. It was inevitable that on the facts thus brought to light the Act of 1904, which was based on practically no previous local experience, should be found to require substantial modification. There were two directions principally in which reform was felt to be necessary. In the first place, the Act as

it stood gave no legal protection to societies formed for purposes other than credit. A few societies had sprung up here and there for such objects as marketing, production and insurance, for which no room could be found in the Act. In the second place, the growth in the number of societies and the difficulty experienced in raising capital locally gave rise in many provinces to the question of creating some form of central organization to supervise local societies and to provide them with sufficient capital where it was impossible to raise it locally. These defects were remedied by the Co-operative ~~Credit~~ Societies Act of 1912 which gave legal recognition for the first time to distributive and other societies and to various forms of central organization. The new Act introduced also some other changes such as abolishing the old distinction between rural and urban societies and substituting for it the classification of unlimited and limited liability societies. But the main changes were those noticed above.

SECTION II

Quasi-co-operation. Some Indigenous Types

Chit-fund. The practice of combining for the mutual supply of money had been in existence as an indigenous institution in parts of India long before the introduction of co-operative legislation.

One of the oldest instances of such combination is to be found in the 'chit-fund' system which is met with chiefly in the Malabar and Tinnevelly districts in the Madras Presidency. The idea of a 'chit-fund' is that a number of people well known to one another, commonly living in the same village, agree to subscribe a fixed amount of money periodically, say, at the end of every week or month. The total sum subscribed on each occasion is then pooled and lent successively to individual members, the choice being made each time by casting lots. The earlier winners obtain the advantage of getting the prior use of the money. Thus, for instance, if a hundred people agree to pay each week a subscription of two rupees per member, on each occasion a sum of two hundred rupees is lent to some one member chosen by lot, and thus at the end of a hundred weeks, each member will have paid in two hundred rupees and received two hundred rupees. The advantage of the system is the stimulus it gives to thrift and mutual credit. In the first place the members are induced to save by the obligation to set aside from their earnings the amount required for the periodic subscription. In the second place they agree to run the risk of not getting their money back till possibly the end of the whole period, relying in the meantime for the safety of their money mainly on their confidence in one another. It is obviously a convenient though rather clumsy method of securing capital. It helps the man of limited means because he is enabled to repay the

capital which he borrows in small instalments at convenient intervals.[1]

Variations of Chit-fund. From this simple and primitive system have grown up similar but somewhat developed methods of raising money. One of the most noticeable is the system whereby, instead of drawing for the pool, it is decided to put the money up to auction. The man who bids the lowest sum, below the total subscribed for each occasion, obtains the sum which he bids. For example where each member out of a hundred subscribes two rupees each, the total available on each occasion, namely two hundred rupees, is put up to auction. Suppose that the lowest bid is 180 rupees. The bidder gets just that amount, that is 180 rupees, but he is required nevertheless to execute a promissory note for the whole amount, namely two hundred rupees. The difference between the two sums, namely twenty rupees, is divided as profit among the subscribers. The obvious purpose of the arrangement is to take advantage of the difficulties of hard pressed members to secure profits for the group generally. The aim of the original scheme was to give the members the advantage of obtaining money in a lump sum rather than to make any profit out of the transaction. But the present is avowedly a profit making concern.[2]

[1] *Report on Land and Agricultural Banks.* Nicholson, 1895, vol. i, p. 230. Madras.

[2] Nicholson. vol. i, pp. 242-3.

Loan Fund. Another development of the system is the Loan Funds known as *Nidhis* which exist in various parts of South India. These are of comparatively recent growth and are based apparently on the model of the English Building Society. The first fund of the kind was started in Madras about 1850 by certain persons, chiefly clerks, who suffered from the high rates of interest charged by local moneylenders. The essence of the system, like that of the English Building Society, is that the members subscribe monthly a fixed sum corresponding to a definite proportion of whatever share they have agreed to take in the concern. At the end of a stated period they receive the matured share consisting of the money which they have actually paid up *plus* the profit which has accrued on it. During the period agreed on, the money accumulating in the hands of the society is lent out at regular intervals to borrowing members on the security of real, personal or movable property. The period for which a loan fund is ordinarily arranged is either forty-five or eighty-four months. In the first fund organized in Madras, the period was eighty-four months. Each subscriber was required to pay a rupee a month and received at the end of the eighty-four months a sum of Rs 102½ for every Rs 84 paid by him. The rate of interest at which loans were granted to members was 6¼ per cent with penalties for delay.

Different Kinds of Loans in a Loan Fund. The loans granted by a typical loan fund are of four

kinds. (1) Simple loans, which are merely advances, to a member of the subscriptions actually paid up by him. (2) Regular loans, which are granted upon the security of real or movable property and returnable by the usual monthly subscription. (3) Temporary loans, which are granted like the above on real or movable security but repayable not by monthly instalments but in a lump sum, say at the end of every three or six months. (4) Small loans of Rs 5 or Rs 10, repayable in short periods. The method of repayment by periodic subscription, which is the usual method adopted in loan funds, provides artisans and men of small income generally with a convenient means of borrowing and repaying debts. The debt is reduced insensibly for the borrower by being spread into a long series of petty payments. But its usefulness is almost wholly confined to people living in towns who get their wages at stated periods. To an agriculturist, who has ordinarily to wait till the harvest for realizing any income on his capital, it is impossible to make payments at fixed periods, and hence he finds the loan fund useless for his purpose. Practically all the existing loan funds in the Madras Presidency are found in towns.

Loan Funds not Co-operative. These funds can hardly be described as co-operative. They have existed primarily as dividend-making concerns. One good purpose, however, they have fulfilled in some measure, and that is to enforce thrift among the members. Every person who joins is required to take one or

more shares, and these having to be paid up by periodic contributions compel him to save.[1]

SECTION III

Co-operation Anterior to Legislation

Case of Spontaneous Co-operation in the Punjab. Besides these indigenous forms of quasi-co-operation, there existed in certain parts of the country co-operative societies which were started before the Act of 1904. One of these was a case of spontaneous action on the part of some landowners in a village in the Punjab in 1892. It was found that a considerable part of the common land belonging to the village community was in danger of being washed away by the river and by hill torrents. Cultivation was carried on in a haphazard manner and the village community found itself sinking deeper and deeper into debt. The protective measures which were required to put the land on a better footing were beyond the strength of individual landowners; and at the suggestion of the village headman, who happened to be a man of more than usual insight, it was decided that the villagers should take joint action. Accordingly a committee of management was elected to take charge of the common land.

[1] Nicholson, vol. i, pp. 21-3 and 242-3. *Proceedings of Registrar of Co-operative Societies.* 1906. p. 50.

They were required to employ the income (1) for improving the land, (2) for redeeming the mortgages effected on it, and (3) for making advances to villagers for necessary purposes. At the end of the first year the committee obtained the modest balance of Rs 109 but this rose at the end of the twelfth year to Rs 2200—a striking evidence of the practical wisdom of the scheme. The original purpose was amply fulfilled. Various improvements were made on the land, such as planting trees where the land was exposed to encroachments; the mortgages on the land were redeemed; and a considerable sum was distributed as loans among villagers at low rates of interest. Besides these economic results, the committee's influence was felt in the village in social and domestic matters, especially in the reduction of the extravagant expenses usually incurred in connexion with marriages.[1] ✓

Official Experiments in the Punjab. Apart from such spontaneous action on the part of the people, there have been cases where individual officers of government on their own initiative started co-operative societies before the era of legislation. These were mostly in the nature of experiments and were started by officials who had observed the progress of the co-operative movement in Europe and saw the possibility of its application in India. The earliest of these experimental societies were started in the districts of Multan and Dera

[1] *Report, Co-operative Societies, Punjab*, 1905 ; Para 5.

Ismail Khan in the Punjab, where in 1898 efforts were made under official guidance to start what were called Mutual Help Associations. There were some differences of detail between the systems as tried in the two districts, but the main idea was the same. The society was managed by a small committee elected by the members, who in most matters of administration followed the constitution drawn up by those who started the society. Subscriptions were payable in kind. The general practice was for members to make their contributions immediately after each harvest by setting aside a small portion of the produce consisting usually of wheat, rice, indigo or barley. The proportion of produce payable by each member was determined from time to time by the society, but the usual contribution was about 2½ per cent, if the harvest was normally successful. If a harvest failed, the contributions in respect of it were as a rule suspended. When the subscriptions of grain had been collected, they were sold and the cash proceeds were either deposited in a post office savings bank or distributed as loans to members. The practice of depositing the money in a savings bank became the favourite practice since it offered a safer and speedier return on the capital. At the beginning the societies followed in many respects the model of the Raiffeisen societies of Germany. They limited their operations to a small area, insisted on unlimited liability, made their administration as far as possible gratuitous, and lent money

for the most part for productive purposes only.[1]

Mr. Dupernex's Societies in the United Provinces. Another instance of experimental societies occurred in the United Provinces where in 1901 Mr. H. Dupernex, I.C.S., whose book on people's banks had attracted attention to the subject of co-operation, started a few societies on his own responsibility. The societies were formed in selected villages largely on the Raiffeisen model. The management of each society was in the hands of a local committee assisted by a board of supervisors. The unique feature of Mr. Dupernex's scheme was the establishment of organization societies in different parts of a district consisting of land-owners and other people possessing local knowledge and influence. The object of an organization society was described as fourfold: '(1) to promote a knowledge of the principles of co-operative banking in the district, (2) to organize village banks and supervise their working, (3) to grant advances to village banks under its supervision, provided the society is satisfied that the village bank is *bona fide* and that the joint guarantee of the members composing it is sufficient security for the repayment of the advance, and (4) to arrange for the proper audit, from time to time, of the books of the village banks.' The idea with which organization societies were started was that they might gradually be made to take the place of an intermediate agency between the village

[1] *Report of Committee on Co-operative Societies in India.* 1901. pp. 59-61.

bank and the central organization which might eventually be formed at the headquarters of every district.[1]

Causes of their Failure. Mr. Dupernex's scheme proved on the whole a failure, but the experience gained in the province by the working of his societies was helpful to the officers who had to put the Act of 1904 in operation. These societies were the most striking examples of co-operation in India before the period of legislation, and hence the causes which led to their failure deserve to be noticed. In the first place, both the official and unofficial workers who organized societies were completely without experience or special knowledge of co-operative principles. This defect was seen chiefly in the recruitment of members who were drawn from different classes and interests without sufficient mutual knowledge. In the second place, the rules formed for the guidance of societies were too elaborate, requiring more knowledge and skill than are met with ordinarily in villages. In the third place, the capital required for the societies was often raised under official influence at rates of interest much below the market rate; and loans were also granted to members at rates which were too low. The societies from the first assumed the appearance of philanthropic bodies and failed to enlist the business instinct of the community which was so essential for lasting success.[2]

[1] *Village Banks*, H. Dupernex, 1901, Allahabad, pp. 8–11.

[2] *Agricultural Journal of India*, 1906, Art. by J. H. Simpson, I.C.S.

SECTION IV

Rural Indebtedness in India and Some Attempted Remedies

General Causes of Rural Indebtedness. In nearly all the cases described above, the agricultural problem to which co-operation was applied was, as we have seen, mainly that of indebtedness. The most obvious economic evil from which agriculturists in almost every country have suffered is the lack of capital. The indebtedness of the Indian peasant is no exceptional phenomenon. Wherever agriculture is pursued as the main occupation, there the inhabitants have, from the very nature of the circumstances, been compelled to borrow often to a very considerable extent in proportion to the value of the land. The circumstances of agricultural life which render the peasant so peculiarly liable to indebtedness are the seasonal difficulties which make agriculture a relatively precarious occupation, the legal and customary obligations which tend to settle upon land, the mental inertia which often seems to accompany the pursuit of agriculture, the distance from open markets which makes it difficult to realize the best possible value for agricultural produce and the constant tendency to subdivision and fragmentation of land.

Indebtedness and Prosperity not Necessarily Inconsistent. The question is often asked why in spite of the great improvements in communications, in the maintenance of law and order, in

the construction of vast irrigation works and in the extension of trade which have taken place in India during the past fifty years, there has been, so far as it is possible to judge, no reduction of indebtedness among the peasantry. The question is one of very great difficulty and has given rise to endless controversy. One obvious answer to the question would seem to be that indebtedness still exists in India, not *in spite of* these improvements but *just because* of them. The policy of land settlement which is now pursued in India has led to an accurate and authoritative estimate of individual rights in land and of the individual's obligation to the State. This makes land an asset of clearly ascertainable value and more convenient to pledge. Similarly the improvement in communications, water supply and internal and external trade has greatly raised the price of land and increased its value as a form of security. The agriculturist's credit is thus on the one hand more definite and on the other of greater value. That is to say, he is now in a better position to borrow; and, in the absence of any such restraining influence as can come only from education, he has pledged his new credit to the fullest possible extent. The explanation seems convincing, the more so if we consider what has happened in certain countries of Europe under similar conditions. The cases of Switzerland and of Norway have been frequently mentioned. In these countries there has been a great increase in the amount of available credit by reason of 'the introduction

of seemingly just laws as to inheritance, by the removal of feudal disabilities and by the wonderful development in communications.'[1] The result has been a growth of indebtedness as well as of prosperity—a result in which there is nothing necessarily inconsistent.

Causes of Indebtedness in India. The question of indebtedness in parts of the Bombay Presidency was gone into at great length about thirty-five years ago by a commission appointed to enquire into certain serious disturbances which took place in the Deccan on account of the exactions of moneylenders. The findings of the commission have a wider application than the limited area to which they confined their enquiries. They summarized the causes of agricultural indebtedness as follows:

(1) Poverty with unproductive soil, precarious climate and irregularity of income. (2) Ignorance and improvidence. (3) Extravagance. (4) Ancestral debt. (5) Expansion of credit. (6) Increase of population without corresponding increase of return. (7) Facilities for borrowing owing to influx of moneylenders. (8) The Limitation Law as leading to renewals on usurious terms including compound interest. (9) The revenue system of a fixed demand.[2] These causes, in varying degrees, will be found applicable to nearly every province in India.

[1] *Report on Land and Agricultural Banks*, Nicholson. vol. i. p. 8.

[2] Nicholson, vol. i. p 241.

Usual Rates of Interest. The rates of interest charged by private moneylenders vary according to the locality, the class of borrowers and the object of loans. This variation makes it difficult to fix with any precision the general standard of interest in the country. Another difficulty is the absence of any reliable documentary evidence regarding the rate of interest levied in any particular transaction. Where a bond or other document is executed, it is often found to contain figures much lower than the actual rates levied by the moneylender. Even where the figures appear to be correct, it has to be remembered that the bond by itself does not represent the whole transaction because various subsequent renewals with compound interest make the hardship to the borrower much greater than in the original transaction evidenced by the bond. Sir Frederick Nicholson in his report on the agricultural situation in Madras seemed to suggest that on the average, taking all kinds of debt into account—mortgages, cash debts and grain debts—the rate of interest was seldom below 15 per cent, probably somewhere about 18 per cent.[1] This appears to be an exceedingly moderate estimate. The Registrar of Co-operative Credit Societies in Bengal, on an investigation of the question in his own province, fixed the rate of interest there at from 25 to 75 per cent.[2] The Registrar of the

[1] Nicholson, vol. i. pp. 17–18.
[2] *Report of Co-operative Societies in Bengal*; 1904–5. App. IV.

United Provinces suggested that in his area the usual rate was ½ anna in the rupee per mensem or 37½ per cent per annum,[1] while in Burma it was supposed that the moneylender obtained on ordinary loans something like 2½ to 5 per cent per mensem.[2] All these figures must be taken with a considerable degree of qualification. The rate of interest which is actually levied is in many cases a long way above these figures. It must also be remembered that no average rate of interest can convey any clear idea as to the pressure which moneylenders are able to exert. It often happens that the professional moneylender is also the grain dealer of the village; and while in his former capacity he exacts a high interest on the loan, in the latter, he compels the villager to sell at an unconscionably low price the produce with which he has to pay back the loan. The average rate does not give any clear idea also of such factors as the compounding of interest on every renewal of a debt, the control exercised by the moneylender on the land and produce of the borrower, the stipulation for personal service which moneylenders are sometimes able to enforce on the person and family of the borrower, and the moral degradation into which the cultivator is thrown by a condition of chronic indebtedness.

Objects of Loans. The chief purposes for which agriculturists borrow money are to pay

[1] *Report, Co-operative Societies, United Provinces*; 1907–8; para. 22.

[2] *Report, Co-operative Societies, Burma*; 1906–7; para. 20.

current expenses of cultivation such as the purchase of seed, manure, etc., to purchase cattle, implements and raw materials, to acquire new land, to improve the land by irrigation, drainage, weeding and planting, to pay up old debts, to build and repair houses, to purchase foodstuffs and other personal necessaries, to pay the revenue to Government, to meet expenses connected with marriages and other social events in the family, to buy jewellery and to conduct lawsuits.[1] The parties who lend money as a rule are either the well-to-do agriculturists or the professional moneylenders. The latter, who form a familiar feature of village life in nearly every part of India, have come in for a great deal of adverse comment on account of the high rates of interest levied by them and their heartless methods of recovering debts. They fulfil, nevertheless, a useful place in the village economy since there is practically no other financing agency in a village to meet the indispensable needs of the peasant. Some enthusiastic pioneers of co-operation made the mistake at first of thinking that co-operative societies and village moneylenders were mutually antagonistic factors. But the more experienced opinion has now come round to the view that their right relation must be one of mutual helpfulness. To a rural co-operative society it must be a source of considerable strength to enlarge its deposits by drawing upon the moneylenders' local supply

[1] Nicholson, vol. i, p. 222.

of money as it must be to a moneylender to lend through the co-operative society because it makes his business decidedly safer and what he loses in interest he more than makes up by reduction of risk.

Methods of Borrowing. The largest proportion of agricultural loans is in very small amounts, not exceeding as a rule a hundred rupees, often much below this. There are various modes of granting loans—by oral contract, by unstamped bond, by entry in the lender's accounts, by promissory note, by mortgage simple or non-fructuary, by pledge of movables, by advances on growing crops or by current account.[1]

Loans to be accompanied by Education in Thrift. It is now recognized that the best way of relieving agricultural indebtedness is not altogether by enlarging the means of credit but rather by accompanying every increase of credit by an attempt to educate the people in thrift and mutual control. Otherwise the more money he can command, the greater will be the expenditure incurred by the peasant on his customary extravagances. To advance loans on favourable terms to agriculturists in difficulty has been a recognized policy of the State in India from ancient times; and the British Government have definitely accepted this time-honoured obligation by two legislative enactments in 1883 and 1884, the *Land Improvements Loans Act* and *the Agriculturists Loans Act.* The object of these Acts is to advance State loans

[1] Nicholson, vol. i. p. 233.

to agriculturists for land improvements and for the purchase of agricultural necessaries such as seed and cattle, at moderate rates of interest on the security of their land. The loans made under these Acts have been of help to the more substantial class of cultivators who can produce the necessary security, but they have left practically untouched the lowest strata of the community.[1] The system has also suffered from the serious defect that it does not carry with it any necessary educative influence. It is customary in time of famine to remit on a large scale the obligations incurred by cultivators under the Acts, with the result not infrequently that they learn to look upon the obligation as one which does not necessarily bind them. Such a system, while it may succeed in alleviating temporary hardship, does not succeed as a permanent remedy. It is in this respect that co-operative societies possess a great advantage over other methods of relieving indebtedness. They lay emphasis on the moral factor by making people responsible for each other's obligations and prevent that loss of self-respect which follows from accepting free grants of money. In India, as elsewhere, this combination of material help with moral control is briefly the message of the co-operative credit movement.

Joint Stock Banks unsuitable for Rural Credit. The lack of any educative influence is also

[1] *International Institute of Agriculture Bulletin*; 1911, Nov.-Dec., p. 208.

urged as an objection against joint stock banks as a means of supplying capital to agriculturists. But there are other and perhaps more important reasons why joint stock banks cannot at present afford any considerable help in removing rural indebtedness. In the first place, joint stock banks in India are situated at a considerable distance from villages, which renders communication difficult and negotiations necessarily expensive and dilatory. The distance at which business has got to be done practically prevents a joint stock bank from accepting the kind of security usually offered by villagers. Personal security is, of course, out of the question where the creditor is not in touch with his customer; and as for landed security the investigation of questions like title and value requires an intimate knowledge of the locality which banks at present have not any means of acquiring. Then there is the fact that joint stock banks hold most of their funds at call and they cannot afford as a rule to make those loans for long terms which the agriculturist specially needs. What he requires ordinarily is a loan at the sowing season which will reproduce itself at the time of harvest and which he is not obliged to pay back until he has marketed his produce and realized the sale proceeds. The length of time involved in this is one of the difficulties. A still longer time, it may be pointed out, is required in the case of loans meant for permanent improvements to the land and for the purchase of equipment like cattle

and implements. It must also be remembered that the realization of the produce in agriculture is never a certainty because such factors as seasonal changes, cattle disease, etc. have so much to say in the matter. Lastly the absence of exact business accounts in farming makes joint stock banks chary of dealing with farmers and makes it difficult for farmers to satisfy the formalities required in dealing with a bank. On the whole, therefore, it may be said that joint stock banks are powerless to perform the special functions of a rural credit society.[1]

SECTION V

Raiffeisen—Schulze-Delitzsch—Luzzatti

Raiffeisen and Schulze-Delitzsch—Products of Two Different Environments. There are two main types of co-operative credit societies which have been developed in Europe, known respectively as the Raiffeisen and Schulze-Delitzsch types from the names of their founders. Both of them originated in Germany and both were in the main concerned with the problem of raising capital on the combined security of those who join the societies. The differences between the methods adopted by the two classes of societies are to be traced to

[1] *Report of Department of Agriculture and Technical Instruction in Ireland on Agricultural Credit*; 1914. Cd. 7375.

x.-23.

the different surroundings in which they grew up. Raiffeisen societies were started for the benefit of rural communities, while the Schulze-Delitzsch type was intended for artisans and other wage-earning people in urban areas. In India where circumstances differ so widely from those of Germany and differ so much among the different provinces, the adoption of any fixed model was from the beginning out of the question. So far as agricultural societies are concerned, which form the subject of this book, the Raiffeisen society was taken as the chief model in India, but in the actual working out of the system some very important departures have had to be made in the direction of a compromise with the other type. In some of the Indian reports on co-operative societies there is a tendency to draw the line of distinction between the two societies somewhat too rigidly, as if when a society had been started among a rural community on the lines of Raiffeisen, any attempt to incorporate into it some features of the other system should be resisted simply because it departed from the purity of the original Raiffeisen model. It is an important point to bear in mind, in introducing co-operative credit societies in a new country, that Raiffeisen and Schulze-Delitzsch do not represent two competing ideals, the products of two schools of economic thought and investigation, but are simply concrete specimens of organization shaped almost wholly by local circumstances. Therefore, while a knowledge

of the differences between the two systems may be of great value where new societies are started, the primary consideration everywhere must be the actual prevailing circumstances. A too strict adherence to Raiffeisen and Schulze-Delitzsch in the abstract may prove mischievous in the result.

Characteristics of a Raiffeisen Society. The chief characteristics of a Raiffeisen society may be stated as follows:

'Limitation of area, so as to secure mutual personal knowledge on the part of members.

'Low shares.

'Permanent indivisible reserve fund.

'Unlimited liability of the members.

'Loans only for productive or provident purposes.

'Loans only to members.

'Credit for relatively long periods with facilities for repayment by instalments.

'The determination every year by the members of each society of the maximum credit that may be held by individual members at any time as well as of the maximum total of savings deposits receivable and of loans that may be taken up by the society.

'Absence of profit-seeking, dividends if paid being usually limited as a maximum to the rate of interest paid by borrowers for loans.

'Office-holders, with the exception of the secretary, not paid for their services.

'Promotion of the moral as well as the material advancement of members, and in particular the purchase of agricultural requisites

for sale to members and often the procuring of agricultural machines and implements for letting on hire to members.'[1]

Characteristics of a Schulze-Delitzsch Society. The main characteristic of the Schulze-Delitzsch system is that it endeavours above all to accumulate capital of its own and so strengthen the financial position and independence of the bank.[2] It takes up a more pronounced business attitude than the Raiffeisen system. It insists that there must be a sufficient amount of reserve capital to resist the effect of fluctuations in the money market; and this reserve must be the result of the members relying on their own capital and not so much on loans. From this central fact arise the main features which distinguish the Schulze-Delitzsch from the Raiffeisen type. In the first place, in order to build up their own capital, members must be prepared to take shares in the bank. No person is admitted as a rule into a society of this kind who has not enough means to buy one or more shares. To this extent therefore it is not a poor man's bank as a Raiffeisen society is. Secondly, it is necessary for commanding a plentiful supply of money that the bank should be able to draw upon a rather wide constituency. A strictly limited area as in a Raiffeisen

[1] *Report of an Enquiry into Agricultural Credit and Agricultural Co-operation in Germany.* J. R. Cahill. 1913. Cd. 6626. P. xv.

[2] *People's Banks.* H. W. Wolff. P. S. King and Son, 1910. Chap. iv.

society would mean a limited choice of sources of capital. Ordinarily therefore societies of the Schulze-Delitzsch type cover a more diversified and in some cases a larger area and the bond of mutual knowledge which is so great a feature of a Raiffeisen society is seldom present in the same form. Thirdly, because the societies usually cover a large area, it becomes difficult to enforce on the members the principle of unlimited liability. Where people are drawn from different professions and strata of society, they are not necessarily acquainted with each other and are reluctant to bear each other's obligations to an equal extent, as is implied in unlimited liability. At first, of course, unlimited liability was the rule in both kinds of societies. That was largely because limited liability was then practically unknown in Germany. But subsequently when German law permitted societies the option of limiting their liability, many Schulze-Delitzsch societies chose limited liability as more suitable to their constitution.

Characteristics of a Luzzatti Society. A third important variety of credit societies in Europe is that associated with the name of M. Luzzatti in Italy. They resemble to a large extent the Schulze-Delitzsch type of banks, but differ from them in that their shares are smaller but payable in larger instalments spread over a shorter period. The latter arrangement enables the bank in a short time to rely on a certain definite amount of capital, while the smallness of the aggregate shares brings it within reach

of a poorer constituency. They also differ from Schulze-Delitzsch banks in the closer connexion they maintain with the agricultural population by granting loans to neighbouring agricultural societies under conditions specially suited to their needs. And lastly they insist, as a rule, like Raiffeisen societies, on gratuitous administration on the part of their committees and officers.

SECTION VI

Statistical Summary of the Growth of Co-operation

Number of Societies according to Classes. The story of the growth of the co-operative movement in India is practically a record of the growth of one single form of co-operation, namely of agricultural credit societies. The total number of co-operative societies of all kinds in India in 1922-23 was 56,136. Of these the number of societies for purposes other than credit, including agricultural, industrial, and professional societies, was 4,302, of which agricultural societies alone numbered 1,047. Of the total number of credit societies, 51,834, 48,783 were agricultural and 3,051 non-agricultural. Therefore numerically agricultural credit societies stand to the rest of the movement in the proportion roughly of 6·5 to 1— a sufficient indication of their predominant position in the Indian co-operative system. This relative position, however, is bound to

Progress greater than the Figures Represent. These figures, however, do not represent all the progress which has been really achieved. In the first place, the policy pursued, at any rate in the earlier years in India, has been to proceed slowly with the formation of new societies. It would have been easy to start work in every village which offered any likelihood of success, and easier to start it in those many villages which petitioned the Registrars for societies in the first flush of co-operative enthusiasm in India. As the Government of India put it in their Resolution of 1914, 'nothing would have been easier than to create new societies, as it were, by beat of drum.'[1] But it was felt, and rightly so, that in a movement which depended for its growth on the extent to which the mass of the people grasped its ideas, it would be much better to go along cautiously, because the demoralization caused by the failure of one society was enough to counteract all the stimulus provided by many cases of success. It follows therefore that the above figures do not represent by any means the extent to which the idea of co-operation has touched the imagination of the people, but only—what is perhaps a less material fact—the number of cases in which societies have been actually formed after a careful examination of the probability of success in each individual case. In the second place, the number of registered members does not fully indicate the range of benefits conferred

[1] Resolution, June 17, 1914, para 5.

by co-operative societies in India. The system of joint families which prevails among the greater part of the population keeps men in close groups in which what happens to one individual often bears an intimate relation to the welfare of other individuals in the group. To a certain extent a caste is a developed joint family and its members are bound to one another by a sense of mutual obligation; and the village community, though dead in many respects, still raises a shadowy feeling of brotherhood among the rural population. It is possible therefore that the benefits which the registered members derive from a co-operative society are not confined to them but spread among a wider circle through the bonds of the family, the caste and the village community. Such an extension of benefits does not lend itself to numerical measurement, but it may be suggested that the number of members increased six or sevenfold may be a not unreasonable estimate of the influence wielded by a co-operative society.[1]

Progress compared with Other Countries. On the rate of progress in India as compared with other countries the following short note in the Resolution on co-operation issued by the Government of India in 1914 is instructive. 'It is true that there is still only one agricultural co-operative society in India for every 20,000 of the population engaged in agriculture, whereas in Italy for instance there are eighteen

[1] Resolution, Government of India, June 17, 1914, para 5.

and in Germany fifty-two. But the movement in India is only at its beginning and the progress made in the first stage has been unequalled in any other country. In Germany, the pioneer of co-operative credit, the initial difficulties were immense, and thirty societies represented the fruit of thirty years' effort, while even now according to the best information available, the number of societies in Germany after another thirty years does not exceed 17,000. In Austria after ten years there were fifteen societies and now after some sixty years about 12,000. In Russia there are said to be 14,000, in France 4,000, and in Japan 7000.'[1]

SECTION VII

Composition of Capital—Shares

Composition of Capital. The working capital of agricultural societies is mainly composed of the following items: paid up share capital, loans and deposits from members, from non-members, from other societies and from the central banks and the reserve funds. The proportion in which these various forms of

[1] Resolution, June 17, 1914, para 5.

capital were represented in the total funds of agricultural societies in 1922–23 stood approximately as follows:

Paid up share capital		...	21
Loans and Deposits from members.			4
Do	do	non-members ...	7
Do	do	other societies...	2
Do	do	central banks ...	46
Reserve Fund		...	13

Methods of Raising Shares. There is hardly a province in which share capital does not appear as an item in the composition of an agricultural society's funds. Broadly there are two ways in which shares are contributed. In one class of societies the share is paid up as soon as a member is admitted. But the payment of a share does not entitle a member to claim a dividend or any corresponding share of the profits. It may be withdrawn only when membership expires. The object of the share capital is that, in the event of failure and consequent liquidation, the first demands of creditors may be met from the amount of share money, and that the unlimited liability of members for the debts of the society may not be drawn upon except as a last resort. A different method of raising share capital prevails especially in some provinces in North India.[1] This method is peculiar to India, though a certain resemblance may be traced between it and the Luzzatti system in Italy. Its central feature is that the share is spread over a period

[1] Resolution, Government of India, June 17, 1914, para. 20.

of ten years and made payable by yearly or half-yearly instalments. At the end of the ten years the shares may be withdrawn, though in some provinces efforts have been made to make them non-withdrawable. With regard to the distribution of the profits, two different methods are observable. In one all the profits earned during the period of ten years fixed for the payment of the share are carried to the reserve fund, while in the other only a fourth part is carried to the reserve fund, the rest being divided among the members. But in both methods it is agreed that of profits earned *after* the completion of the ten years, three-fourths should be distributed among the members.

Withdrawable Shares. The attempts which have been made in some provinces to render permanent the shares which at first were contributed as withdrawable deserve notice. Their main interest is that they are a sign of the growing confidence of the agriculturist in the financial stability of co-operative credit societies. In the early days of co-operation, it was necessary to make the shares withdrawable as a means of attracting capital when the stability of the movement had not been demonstrated. That this stage is now passed is a hopeful symptom. There is one element of danger, however, in making a change of this kind. It may give room for the impression that there is not sufficient fixity in the conditions on which co-operative societies give and accept money; and such an impression,

unless properly explained, may prove a serious blow to a movement which rests above all on public confidence. The safe thing would be not to carry out any change in the conditions of a society until it had received the absolutely unanimous assent of the members. Apart from this danger, there is the inherent difficulty that permanent shares, just because they are unrealizable, may diminish in value. None but wealthy people will be found willing to buy shares which at a time of stress may not be turned readily into cash. There are only a few such wealthy people in a village; and these few will have already purchased the maximum number of shares allowed under the rules. There is also the hostile propaganda busily carried on by the village moneylender who could easily make non-returnable shares an effective weapon in turning public opinion in the village against co-operative societies.

Arguments against Extending the Second Kind of Share System. There are several practical difficulties which attend a system of share capital which makes the greater part of the profits divisible among the members at the end of ten years. And they constitute a strong argument against any considerable extension of the system. In the first place, the temptation will be strong for the original shareholders to discourage new admissions as a means of keeping up the rate of dividend. As members die or retire, it is to the interest of the survivors to prevent additions to their number so as to divide the profits

among a smaller number. Secondly, there is the likelihood that the heirs of the original shareholders may acquire a kind of vested interest in the society with the result that no effort is made to keep out undesirable heirs. Thirdly, where there is a decennial distribution of profits, considerable difficulty will be felt on every occasion when new members are admitted. Two methods are possible. One is that new members should pay up all the share money due on the date of their admission with the approximate profit payable on it till that date. The other is that they should pay the ordinary instalments from the date of their admission and receive a proportionately reduced bonus at the final distribution. The first will keep out poor members and the second will cause a great deal of difficulty in book-keeping.[1]

Arguments for and Against Shares. The whole question of admitting share capital in rural societies has been the subject of frequent discussion in India. The fact that the organization of rural societies in India was based primarily on the Raiffeisen model and that Raiffeisen societies had as a rule relatively little to do with shares made people sceptical about the desirability of introducing shares. The chief argument, of course, against shares is that they make members greedy for dividends; and greed and co-operation have in the experience of many societies been found

[1] *Report of Committee on Co-operation in India*, 1915, p. 526.

hard to reconcile. It has also been urged—and this is simply another aspect of the same fact—that the rate of dividend may be raised by shareholders at the expense of the reserve fund and therefore of the general stability of societies. The objections have some truth in them, but they are likely to be greatly exaggerated. Both in India and in Europe experience has shown that while unlimited liability is on the whole the most suitable basis for agricultural credit societies, too much austerity in the enforcement of this principle may prevent the growth of societies and that a certain degree of compromise is desirable. The advantages of share capital are: (1) that it provides a field for permanent investment to the small cultivator and is therefore conducive to thrift; (2) that the share capital is a tangible asset and more likely to attract outside capital than mere unlimited liability; (3) that in years of scarcity the share capital remains while unlimited liability will decrease in value as a security owing to depreciation in the value of property; (4) that in the case of societies with paid-up share capital any loss will fall in the first instance on that capital, which is easily realized, but in the case of societies based only on unlimited liability, the loss will have to be made good from the general assets of the members which are as a rule difficult of realization; and (5) that whether a reserve fund is formally created or not, share capital is always a kind of reserve in itself.

Combination of Unlimited Liability with Share Capital. The tendency in India as well as in Europe now with regard to agricultural credit societies is to combine unlimited liability with share capital in some form. The Committee on Co-operation (1915) expressed their view somewhat in this form. The chief object of every society should be to acquire a permanent capital of its own as speedily as possible. Such permanent capital may be either share capital or a reserve fund formed from the profits of the society. Generally in India on account of the high lending rates it is possible to secure a wide margin of profit and so create a sufficient reserve fund. But where circumstances make it difficult to secure a high rate of profit or to secure it in sufficient time, it is advisable to form a share capital 'provided that shares are not used to create disabilities against poor members or persons desirous of membership or made an excuse for dividend-hunting.'[1] The main point is that shares are bad or good according as they are introduced for the personal advantage of members or for strengthening the financial position of the society.

Unlimited and Limited Liability. Unlimited liability, as has been pointed out, is as a rule the most suitable basis for agricultural societies. By unlimited liability we mean that each member accepts liability for the debts of the society both to the society and to the creditors to the extent of the whole of their property and

[1] *Report*, pp. 25-6.

this liability is individual and collective. In a society with limited liability the obligation of each member is limited to a fixed sum on each share held by him in the society. There is a third form of liability in some European countries known as unlimited contributory liability, which means that in the event of bankruptcy the creditor has no right to proceed directly against individual members but only against the society as a whole. The society itself in such cases levies contributions on the members in such wise as it thinks fit for the satisfaction of the creditor. Even in Germany where the system originated, its elaborate and slow procedure has made it exceedingly unpopular. In Germany over ninety per cent of the rural societies are based on unlimited liability. In India the various social bonds which bind people together in a village have more or less familiarized them with the principle of unlimited liability; and many of the fears which were at first entertained have proved unfounded. As a matter of fact, in most countries unlimited liability has come first in the historical development of co-operative credit societes. Under the existing law in India, all agricultural societies must be based on unlimited liability unless the special sanction of the Local Government has been obtained for a different practice. With a few exceptions societies follow the general rule though in many cases unlimited liability is combined with share capital. The advantage of such combination is the added security which it gives and also that in case of liquidation the

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share capital may be proceeded against before the property of members is seized. Besides the obvious convenience of this procedure to members, it benefits creditors by saving them the trouble and delay involved in realizing debts out of the general assets of their debtors.

SECTION VIII

Deposits and Loans

Smallness of Deposits. Deposits have not yet come to fill in India so large a place in the aggregate working capital of societies as they do in Europe. The total sum held as deposits in 1922–23 was under twelve per cent of the aggregate liabilities of societies. In Germany they constitute in Raiffeisen societies nearly all but a tenth of the working capital. The difference may be explained as follows: Firstly, co-operative societies are still in their infancy in India as compared with Germany, and sufficient time has not elapsed since their origin to evoke such general confidence as would bring in a great flow of deposits. Secondly, the rates of interest at which private money-lending is carried on are still so high that unless societies offered to pay the same exorbitant rates they would not attract deposits to any considerable extent, at any rate in the early stages when their other advantages have not been fully demonstrated. Thirdly, the practice of regularly depositing money is still

to a large extent a novel thing in India. Nearly all lending has been in the way of usury, a man who has surplus money lending it to another who is in need and in return exacting as high a price for it as he possibly can. [Fourthly, a large proportion of local capital is in the hands of professional money-lenders, and being no friends of co-operation, they are not likely to invest it for the advantage of co-operative societies.] There is no doubt that the small amount of deposits is an unsatisfactory feature of co-operation in India, but so far as members are concerned it must be remembered that their main object in joining the society is to obtain loans. They have seldom any surplus money which they can deposit with the society because as a rule they require all their available savings, and much more, to rid themselves of old debts.

Co-operative Savings Banks. Attempts have been made in some provinces, to open savings bank accounts in connexion with co-operative societies as a means of stimulating thrift. Two objections which have been raised against the system may be noted. In the first place, if, as may be found necessary, a society undertakes to meet demands at call, sufficient money would have to be left in the hands of the society's officers and with the existing standards of education and public duty in the village misappropriation of funds may be a not uncommon occurrence. This objection must disappear necessarily with the growth of education and with increased opportunities for

the exercise of responsibility in village self-government. The second objection is that the Post Office has already an extensive system of savings banks, and if co-operative societies start savings banks too, there will be an unnecessary duplication of machinery and a possible loss to Government of the capital transferred to co-operative banks. To this it may be answered that where post offices exist outside towns, they are found only in large villages. The smaller villages have been practically untouched, and rural co-operative societies which find their proper scope in small villages will have a more or less fresh field for raising money. Besides if, as is likely, villagers will be more ready to deposit their money with a bank close at hand managed by people whom they know thoroughly than with a Government institution at a distance from their homes run by people whom they do not know, the possible improvement in thrift which it implies must be a source of benefit to the whole community including the Government.

Compulsory Deposits. It has been attempted in some provinces to raise money by compulsory deposits. The system which obtained in the United Provinces some years ago was of the following description. The deposits were in the first instance of the nature of fixed deposits for five years. They took one of two forms. Either they were levied on each member at a rate corresponding to the rent paid by him to his landlord or they were levied in the shape of so much grain for every plough in

his use. Where the deposit was raised in kind, the grain was sold in the open market and the proceeds credited to the account of the depositor. The rate of interest paid on deposits of both kinds was sixteen per cent.[1] The difference between compulsory deposits and compulsorily subscribed shares is that the former, unlike the latter, carry with them no liability and they bear a fixed interest which is independent of the transactions of the society during the period. The principal difficulty with regard to compulsory deposits, like other deposits, is that members join at first simply to borrow money, and when they have no money to deposit, compulsion only serves to keep many people out of the society and drive others to the moneylender to find the money required for deposits. Compulsion is at best a dubious instrument for educating people in habits of thrift.

Period of Deposits. The usual period for which deposits are admitted in India is one year. But it is customary in agricultural societies to renew deposits frequently, and the necessity to stipulate for long terms is thus to a certain extent obviated. Though one year is the usual period, there is considerable variation regarding the practice in different parts of the country. It varies from deposits at call to deposits for as long a term as five or six years. On the whole it may be said that societies have been able in normal times to pay

[1] *Agricultural Journal of India, 1916.* Article by J. H. Simpson, I.C.S.

back deposits with strict punctuality. The trouble arises generally in times of famine or scarcity, but then it is not uncommon to get depositors to consent to a temporary renewal of deposits. On the other hand, in some places it is the practice for societies to repay long term deposits before the term expires to any depositor who is in difficulties and wants his money back. In such cases the repayment is made with interest to date. The practice has been generally condemned on the ground that repayment before time is bound to upset the calculations of central banks with regard to the requirements of agricultural societies.

Deposits from Non-Members. Of the total deposits, less than one half is derived from members and the other from outsiders living in the village. It has been proposed to offer slightly higher rates of interest on members' deposits since it must obviously strengthen the society to derive as much of the capital as possible from its members. On the other hand, a growing outside *clientele* in the village has this great advantage that it means so much more interest in the operations of the society among the local public generally and is an indication that the co-operative society is regarded as one of the popular institutions of the village. And in the early stages of a society when members are more keen to borrow than to deposit money, what is required is not members' but *other people's* money.[1]

[1] Wolff, *Peoples' Banks*, chapter xvii.

Loans. The difference between deposits and loans is that a society obtains its deposits on terms prescribed by itself either at a general meeting or in its by-laws, but loans are obtained on terms prescribed not by the society but by the lender. Consequently deposits are a better index of the credit and standing of a society than loans. Loans received by societies are of four classes: (1) loans from the Government, (2) loans from central and provincial banks, (3) loans from other societies, and (4) loans from private individuals or institutions. Most of these classes of loans have been either discussed in previous sections or may be reserved for future discussion under more appropriate headings. About the third, however, it may be said that the practice which obtains in some parts of the country for one rural society to lend of its surplus money to another is expressly sanctioned by the Co-operative Societies Act (1912, cl. 29, 1) which permits one registered society to lend to another with the general or special sanction of the Registrar. Where a society starts, a few years after it is founded, to lend to other societies, it is a sign that the members have not been in any great need of a co-operative society and the effort spent in organizing it might have been better spent in some other village in more real need of credit. That is one objection, if it may be called so, to societies lending among themselves. Another objection is that such mutual lending is likely to produce confusion of liabilities and hamper central banks in their task of estimating possible

calls on them from local societies. It is more desirable therefore that when a society wishes to lend money to another society, the transaction should be carried out through a central bank. This will avoid confusion and regularize the practice.

SECTION IX

The Reserve Fund

Primary Object of a Reserve Fund. A reserve fund is a leading feature of a Raiffeisen bank. The main object with which Raiffeisen instituted reserve funds was to prevent conflicts between the borrowing and non-borrowing sections in a society. He aimed at bringing men of means and influence in touch with the poorer inhabitants of the locality, and one of the dangers of associating the two classes in the same society was that their interests might come into collision. The poorer member who habitually borrows would like the society to devote its profits to reducing the rate of interest on loans, while the man of wealth who joins only to lend would have them used for raising the rate of dividend. Raiffeisen found the solution in transferring profits to a separate fund to be held as the joint property of the society. In that case the non-borrowing member is helped because the formation of a reserve fund reduces the burden which

otherwise would rest on him, by virtue of his unlimited liability in the event of liquidation. Also, the non-borrowing member may any day be put to the necessity of borrowing himself, and the strengthening of the society's credit which results from the institution of a reserve fund would prevent a rise in the rate of interest. This, of course, is an advantage which in the first instance appeals most to the existing body of borrowers. But they and the rest of the members must alike realize, sooner or later, that the growth of a common fund is a factor which will knit the society more closely together. When the fund begins to increase and with it the interest of every member in it, he will not easily resign his membership and forgo the benefits which have accrued to him through the fund.

Provisions of the Indian Act. The Indian Act on co-operative societies makes provision for a reserve fund in every society. The rules which it lays down are these. As a general case no society registered under the Act should be allowed to divide its profits among the members by way of bonus or dividend. This rule, however, may be relaxed in cases where a society allots a fourth of the net profits in any year to a reserve fund. In such cases the remainder of the profits may be distributed among members in accordance with the bye-laws of the society. This exemption applies only to limited liability societies. An unlimited liability society shall in no case distribute its profits unless the sanction of

the Government has been obtained for it (section 33). The Act gives power to local Governments to make rules for the formation and maintenance of reserve funds and for specifying the objects to which the funds may be devoted (section 43). The rules which local Governments have made in pursuance of the Act deal with the subject in a general way as, for example, that it must not be used for distribution as dividends, that the Registrar's sanction must be obtained before drawing upon the fund and that it shall not be invested except as the Registrar directs. As regards the actual proportion of profits allotted to the reserve fund, the practice in central banks and societies of limited liability is to adhere to the statutory minimum of a fourth, while in societies of unlimited liability, the whole of the net profits go into the reserve fund, except where, under the system of paying up shares by instalments, the profits are distributed as dividends after ten years.

How Soon Should a Reserve Fund be Built up? The object of a reserve fund is not clearly defined either in the Act or in the rules issued under it. It is understood in a general way that its object is to meet sudden losses and to strengthen the security of the society so that it may be able to borrow on reasonable terms. The Government resolution of 1914 stated the purposes of a reserve fund in these terms: 'It supplies a source of income which may be drawn upon in lean years: it fortifies outside confidence and so attracts deposits: it protects

India however have taken an entirely different view.[1]

Meaning of Profits. As has been pointed out, the reserve fund is made up of the whole or some part of the net profits. The term 'profits' includes the following:

1. The gross interest receipts, after deducting in the order named,
   (*a*) the working expenses of the society;
   (*b*) interest on deposits, loans and debentures;
   (*c*) bad and doubtful debts.
2. Proceeds of the sale of stock, so far as such proceeds are applicable to the satisfaction of unpaid interest.
3. Miscellaneous receipts such as entrance fees.[2]

Entrance fees are levied in most provinces. The usual maximum amount is one rupee. One of its objects is to defray the preliminary expenses incurred when a new member is admitted. But it also serves to bring home to each member that admission is a privilege for which a price has to be paid, and it discourages members, to a certain extent, from leaving the society because it would entail the loss of the money deposited as entrance fee.

Investment of Reserve Fund. A question which has been much discussed with regard to the reserve fund is how it should be invested. There is nothing in the Indian Act to throw

[1] *Report, Co-operative Societies, Bihar and Orissa*, 1913-14, para. 43.

[2] *Conference of Registrars, Calcutta*, 1907, app. 2.

any light on the point; and the practice in the different provinces varies so much that no clear guidance can be obtained from it. Some of the objects for which the reserve fund is employed are the following: loans to members, deposits with other co-operative societies and central banks, investments in outside institutions such as a post office savings bank or a joint stock bank and sometimes in Government securities deposited with a provincial co-operative bank, and lastly but rarely in buildings. The main point of the controversy which has taken place over the use of the reserve fund is whether its employment in meeting the ordinary working expenses of a society is legitimate and whether the purpose of a reserve fund is not better served by investing it separately from the society. The chief argument for investing the fund apart from the society is that one of the purposes of the reserve fund is to add to the security of the society by providing some capital on which it can fall back in case of failure. If this capital is invested along with the other funds of the society, then obviously, when the society fails, there is nothing to fall back on because the whole money is lost. As it was once put by a Registrar of co-operative societies, 'the society which puts all its eggs into one basket necessarily diminishes its own security.'[1] On the other hand, it is contended that if it is possible to raise a higher rate of interest on the money by lending it to members than by

[1] *Report, Co-operative Societiee, Bombay,* 1912, para. 49.

investing it in some outside security, it is, at any rate from the immediate point of view, better business to use it in loans to members. It is difficult often to persuade rural societies of the wisdom of lending to some central bank, say, at six per cent and being required to accept loans from the same bank perhaps at seven or eight per cent. The loss of profit which this implies is a serious matter to a society which is none too sure of its standing. A Registrar of Co-operative Societies in the United Provinces stated the case in this form : 'A society stands or falls according to the efficiency of its management, and if the management is efficient it is obviously bad policy to invest at low interest funds which are urgently required for the needs of members. If, on the other hand, the management is inefficient, the society will not be saved from failure because a small portion of the capital is locked up.'[1] Mr. H. W. Wolff, in his book on *Co-operative Banking*, approves of the method of investing in the ordinary business of the society on the ground, *first*, that it strengthens the working fund and, *second*, that it provides against societies venturing on riskly speculations. The right position seems to be somewhere between the two. In the early stages, when a society has no more funds than it barely requires, its main business ought to be to collect enough money to keep the society going and not to let it perish for want of means for carrying on that minimum of business or

[1] *Report, Co-operative Societies, U. P.* 1906-07, para. 34.

which it can exist as a society. But when once this life and death stage is passed, then the ultimate security of the society may become a vital consideration and justify the society in putting its reserve into some separate investment, preferably in a co-operative central bank.

SECTION X

Lending by Co-operative Societies

Objects of Loans Classified. The objects for which a society lends money to its members are various. But the most important are usually three, namely, to pay expenses of cultivation, to purchase cattle and to discharge old debts. Other objects are payment of land revenue, holding over grain for a fair market, purchase of fodder, personal maintenance, meeting expenses of litigation and domestic ceremonies, purchase of agricultural implements, organizing trade, education and the like. Broadly, these various items may be divided into directly productive, indirectly productive and unproductive expenditure. Money spent on cultivation, the purchase of cattle, fodder and implements and holding over grain for a good market may be regarded as directly productive, that spent on payment of land revenue, discharging old debts, personal maintenance and education as indirectly productive, while capital spent on litigation and

ceremonies may be regarded as unproductive. It is an essential principle of a Raiffeisen society that loans should be given as far as possible only for productive purposes, the idea being that the loan should repay itself by its productive employment within the period for which the loan has been granted. Judged by this test, neither indirectly productive nor unproductive expenditure can be justified. But it has been found necessary on this point to make allowance for certain special circumstances, and there is general agreement now that loans for both these forms of expenditure are permissible. There are especially two kinds of doubtful expenditure which have formed the subject of constant discussion, namely, those incurred in connexion with marriages, etc., and with the payment of old debts. The proportion of loans issued for these objects varies from province to province and from year to year. A suggestive distinction has been made, in the attempt to justify loans for these objects, between necessary and unnecessary expenditure in place of the common distinction between productive and unproductive. This is a useful distinction since the experience of co-operative societies in India points to the conclusion that no necessary expenses can well be ruled out in the distribution of loans.

Loans for Domestic and Social Purposes. The chief social and domestic events for which co-operative societies have been required to provide are marriages, funerals and pilgrimages. The usual procedure, when a man requires

money for any of these objects, is to go to the village moneylender and borrow on the latter's terms. This has been the practice from time immemorial. The arrangements are quite well understood in the village, and on every occasion of the kind custom compels the villager to seek, and the moneylender to give, accommodation. The moneylender, for all his exorbitant terms, is a very useful and accommodating person, and he holds a position of unquestioned influence in the village. If now the villager goes to a rival institution like a co-operative credit society for the satisfaction of certain of his more important needs, it is an interference with long established practice which the moneylender and perhaps also a considerable number of the people in the village are apt to regard as a breach of faith on the borrower's part. The moneylender will undoubtedly seek to retaliate; and the easiest means of retaliation would be to force exceptionally high terms on the borrower in respect of those things for which the co-operative society refuses to lend him money. Therefore, unless co-operative societies grant assistance to the villager not only in regard to objects which are directly productive but also in regard to all legitimate and necessary requirements, they will fail to achieve their most important object which is to relieve the agriculturist from perpetual uneconomic indebtedness. Another consideration is that if societies lend money for social and domestic expenses, it may give the societies some control

over the natural tendency of the villager to wasteful and extravagant expenditure. Compared with the resources possessed by the average villager there is no doubt whatever that the standard of expenditure in social matters which is required of him by custom is unduly high. The only effective means of counteracting it is by educating public opinion in the village to a better sense of proportion and to greater self-restraint. One of the best agencies for doing this is a village co-operative society. It contains as a rule the most influential men in the village, and the joint security on which they incur liabilities on behalf of the society makes them careful to check all extravagant habits which may weaken the security of the society. In this way a most useful educative force will have been started. The reports of co-operative credit societies in every province in India bear witness to the progress made by them in checking wasteful social habits. On the whole, therefore, there is little doubt that the existing practice by which loans are given freely to meet unproductive ceremonial expenses is a wholesome and wise practice. Care, however, must be taken in every case that the loan is really employed for the purpose for which it has been given. There have been cases in the past of members applying loans to other purposes than those for which they have been sanctioned. If this is allowed to continue, it will take away from societies that control over expenditure which is

one of the justifications for giving loans for unproductive objects.

Payment of Old Debts. The question of paying up the debts incurred by a member before joining the society is one which presents considerable practical difficulty. Most people who come to join a rural society are sunk deep in debt; and from a purely economic point of view nothing could be better for a society than to relieve them from dependence on private moneylenders and transfer their obligations to the society itself. It saves a considerable amount in interest; payment of ready cash often induces the moneylender to concede a reduction of the principal; and finally it helps to strengthen the *morale* of a member. But there are several practical difficulties in the way of taking any wholesale steps for paying up debts. In the first place, there is the difficulty of finding the funds required for it. In the second place, it is extremely difficult to ascertain correctly the debts of a prospective member. Documentary evidences of debt are comparatively rare and, where they exist, are often misleading. It is almost impossible to obtain a reliable statement of account from the moneylender. And where a settlement is arrived at between the moneylender and the co-operative society, there is the further difficulty of getting the settlement actually carried out. Much thought has been spent on the question in India; and the problem is now reduced to a choice of methods. This is to say, it is generally admitted now that it is worth

while for a co-operative society to relieve its members from their previous dependence on the moneylender. The only difference of opinion is with regard to the right way of doing it. There are two ways open—either to pay up all the debts of a member straightway on joining or to help him to pay back gradually by granting him periodic loans. It appears from a perusal of reports and other official papers that the trend of opinion is in favour of the latter method. The chief objection to the first method is that it weakens the character of a member to have his obligations so easily redeemed for him. It tends to give a wrong direction to his whole attitude towards co-operation. He begins to look upon his society as all privilege and no obligation—an attitude fatal to the development of thrift and self-restraint. A gradual reduction, on the other hand, has often the effect of educating a member in thrift. The difficulty arises in cases where the moneylender presses for immediate repayment, as he sometimes does, when a person leaves his custom to go to a co-operative society. In such cases there is nothing for it but to pay up at once. Where a person's debts are so great that it is impossible for a society to pay up as soon as the money-lender presses for payment, the obvious course is to refuse to admit him as a member.

Chief Security for Loans, Personal. The kind of security on which loans are granted to members is personal, movable or immovable. The first form of security is that which is most

commonly demanded. It is an essential principle of co-operative credit societies that the personal qualities of the borrowing member should be the chief consideration in estimating the safety of the money lent. His land and his chattels may be brought in as additional securities; but they are useful only to the extent that they supplement his personal security, they are no substitute for it. When money is lent to a member on his personal security, it means that the society considers the power of the individual member to repay a sufficient guarantee that the money is safe. The power to repay depends on three factors—the borrower's capacity as a worker, his honesty of character, and the amount of his property. The difference between the co-operative society and the professional money-lender is that the latter looks only to the last, while the former looks to all three, especially the capacity and character of the worker. There is a common impression that personal security means the personal security of the individual member and that it excludes the idea of suretyship. There is nothing in the idea of co-operation or in the practice of it in European countries to justify this impression. It arises probably from the fact that a surety has sometimes to be paid for, and this expense is beyond the means of the poorer members. It is not, however, generally true that sureties demand a price for their service. In the close social groups which characterize Indian society, people are often interdependent to an extent

which makes it hardly strange for them to be guaranteeing each other's obligations. The practice of producing sureties has its uses. There is of course the additional security which it throws in between the creditor and the unlimited liability of the members. It protects the reserve fund in the event of liquidation. It serves as a check on the use which the borrower makes of his loan. But its chief advantage, where the sureties are chosen from non-members, is that it widens the circle of people interested in the society. Such an extension of public interest is of great advantage to the society—it helps to add to their *clientele* and it strengthens the sense of responsibility of the officials.

Mortgage Security. Loans on the security of land have been in general use in some provinces. This is not because the importance of personal security has been lost sight of. On the other hand, the ultimate security on which money is lent is the personal worth of the borrower and his sureties. The explanation of the large number of mortgage securities is that it is a prevailing custom to mortgage one's property as a guarantee of good faith in monetary transactions. Its absence in any particular case may not merely cause suspicion in the mind of the lender but may prevent the borrower from fully realizing the obligation into which he has entered. In any case it is not regarded as any more than a collateral security. There are two cases where the mortgage of land may be a useful form of security.

The first is where the money is advanced to pay off a mortgage executed by a borrower before he became a member of the co-operative society. In such a case the society by requiring a mortgage from him to strengthen his personal security is only substituting one mortgage for another. The second case is where loans are granted for long terms or in large amounts. Where the amount is large, the money value of the borrower's personal security may be insufficient to cover the risk. Where the loan is for a long term, allowance has to be made for the personal risks to which the borrower is liable during the period of loan. A mortgage as a more durable security is a good set-off against the risks to which personal security is liable. In an unlimited liability society the property of a member is always liable in the last resort for debts. It may therefore appear superfluous to secure a mortgage on the property. But it is not really superfluous because without a mortgage it would be open to the borrower to alienate his property during the period of membership and so deprive the society of its security. A valid mortgage is sometimes difficult to secure in some provinces on account of peculiarities in the system of land tenure. In provinces like Madras, Burma and Bombay, where what is called the *ryot-wari* system of land tenure prevails, each individual peasant has his own small holding of which he is the absolute owner. In such cases a mortgage is easy to enforce. But where, as in Bengal, the United Provinces, and the Central Provinces, the

peasant often holds his land in tenancy from a large landowner or group of landowners, there are various customary restrictions with regard to alienation of land as, for example, that a mortgage can be invalidated at the instance of an heir or co-sharers. Such restrictions make it difficult for a co-operative society to secure a mortgage of any real worth. Among other circumstances which militate against mortgages as a form of security in co-operative societies is the fact that when a man is prepared to mortgage his land for a loan, the moneylender generally accepts it as a substantial security and lowers his rate of interest accordingly. It would not become necessary then to go to a co-operative society when for practically the same rate of interest a borrower could secure a loan from the moneylender. Besides, the loans which are secured on mortgage are generally in large amounts which it is beyond the resources of a rural society to grant.

Movable Security. Where movable property is accepted as security, it often takes the form of a pledge of cattle, carts or jewels. Cattle will become increasingly valuable as a form of security when the system of cattle insurance which has been started in a few provinces becomes more widespread. This value will also increase as more progress is made with the scientific measures for the prevention of cattle mortality taken by the Agricultural and Veterinary Departments. Among movables, jewels have always been the favourite form of security. They represent a large amount of

capital locked up in the country in safe but unproductive investment. If it would be possible to mobilize them as security for loans tendered by co-operative societies, it would be of great advantage to the country. The chief difficulty in accepting jewels as security would be to estimate their value with any degree of precision. There is also the possibility of loss to the society consequent on fluctuations in value and the difficulty under present conditions of providing a safe means of custody. Though the Committee on Co-operation in 1901 on the whole pronounced against accepting jewels as a security for loans, the present idea appears to be that it might be allowed in villages where on account of the presence of specially intelligent and trustworthy members, of good silversmiths, and of a ready market, the difficulties are not likely to be so great.

Societies for Landless Labourers. The usual insistence on some kind of collateral security in addition to personal security raises a difficult problem in regard to societies which are mainly or largely composed of people who possess little tangible property. It has been found that in many provinces the co-operative movement has been of little help to the great class of landless field-labourers who constitute so large a proportion of the population. This is an inevitable result of making departures from the orthodox Raiffeisen principle of making personal security the primary thing in a co-operative society. The same complaint has often been heard, for example, in a country like

Ireland. In an estimate made three years ago by the Registrar of Co-operative Societies in Madras, it was found that out of a total membership of 171,000 in rural societies, only 4,000 belonged to the landless class, who are the class most in need of co-operative assistance. The only forms of tangible property which persons of this class can produce as security are their cooking utensils and their little huts built generally on other people's sites. These obviously can command little value, and a strict enforcement of tangible security would result in their receiving little benefit from co-operative societies in the shape of loans. The reluctance of the ordinary co-operative banks to render assistance to persons of this class has led to the creation of a special central bank in Madras for their benefit, *The Christian Central Co-operative Bank*. The societies financed by this bank are scattered practically all over the presidency and are mainly composed of members of the depressed classes. The absence of sufficient material assets among their constituents has undoubtedly caused difficulties to the bank. But it is found by experience that an effective substitute for tangible securities is an efficient system of intensive supervision. Such supervision is helped in Madras by the activities of the Labour Department and its officers.

Rate of Interest. The rate of interest which co-operative societies charge on their loans is fixed with reference to the rates which obtain in the local money market. The idea generally

is to fix it sufficiently low to make it more attractive to the agriculturist than the terms of the moneylender, but not to make it so low that the borrower is led to look upon the co-operative society not as a business, but as a philanthropic, concern. The principle which has been authoritatively laid down is that the rate of interest is not to be considered excessive so long as it is below the general rate of interest in the locality. The danger of fixing the interest unduly low is two-fold. In the first place, it prevents the society from borrowing locally. Money cannot be borrowed locally much below the prevailing rate of interest even by co-operative societies. Where money is lent out at a rate of interest which is too low, a society cannot keep itself going while a high rate of interest has to be paid on its own deposits. Local deposits are a valuable source of income to a co-operative society, not merely because they mean so much more capital but because they serve to enlist public interest in the society. Therefore the rate of interest levied by a society on loans to its members must be such as will enable the society to borrow at a not higher rate. In the second place, one of the first duties of a rural co-operative society is to build up a reserve fund. A reserve fund is created out of profits, and profits in a co-operative credit society are mainly the difference between the rates of interest at which a society borrows and lends. Where the latter falls too low, the margin of profit is reduced which in its turn tells on the

growth of the reserve fund. In the experimental societies started in the United Provinces in 1901, the organization societies began to lend money to rural societies at such low rates that the latter did not feel the necessity of charging anything approaching the local rate of interest on their loans to members. But when the time came for the rural societies to raise capital for themselves, they found that their original rates would not fetch the required funds. They were therefore forced to raise their rates, which, with a *clientele* accustomed to low rates, caused no small practical difficulty to the officials of the societies. There is no doubt, however, that when once co-operative credit societies have established their position in the country, there will occur almost automatically a general reduction of interest. Moneylenders will be forced by competition with the societies to offer their money on cheaper terms, if they are to survive at all. When the moneylender reduces his interest, the societies will no longer find it necessary to keep their rates up. In this way the one is bound to react on the other. There are already signs in various parts of the country of this happening; and as the co-operative movement gains ground, these results will occur on a much larger scale than now.

Average Rates of Interest. The following figures show the rates of interest which prevailed in co-operative societies in the different provinces in 1922–23.

Madras	...	$9\frac{3}{8}\%$ to $10\frac{15}{16}\%$
Bombay	...	$9\frac{3}{8}\%$
Bengal	...	$15\frac{5}{8}\%$
Bihar and Orissa	...	$15\frac{5}{8}\%$
United Provinces	...	15%
Punjab	...	$12\frac{1}{2}\%$
Burma	...	15%
Central Provinces	...	12% to 15%
Assam	...	$15\frac{5}{8}\%$
Coorg	...	$12\frac{1}{2}\%$
Ajmer-Merwara	...	12%

Repayment of Loans. Great importance is necessarily attached in co-operative credit societies to the strict repayment of loans. The principle which has been followed is that a loan should be repaid out of its own proceeds. This is in accordance with the ideas of Raiffeisen and is on the whole a fair principle. But the principle is clearly not applicable in cases where the loan is intended for an unproductive purpose or for a purpose which is only indirectly productive. In these cases all that may be attempted is to draw up a rough scheme of repayment based principally on a consideration of three things—the object of the loan, the amount of the loan and the circumstances of the borrower. By time of repayment is meant not only the number of years in which the loan is to be repaid but also the time of year at which the repayment should be made. In some provinces it is the practice to leave the whole matter to the discretion of the managing committee and to avoid as far as possible fixing a regular system of repay-

ments. It has been found by experience that though a regular system of repayments may sometimes prove too mechanical a solution, its danger is perhaps less than that of allowing uneducated committees a discretion which they are not fit to exercise. A well thought-out scheme which was introduced in Burma in 1912 deserves notice. Loans are divided, for the purpose of repayment, into three classes—*A*, *B* and *C*. *A* loans, which are given for subsistence, expenses of cultivation or purchase of seed, are repayable in full at the next harvest. *B* loans, which are intended for purchase of cattle, building houses, and paying up old debts of moderate amount, are repayable either in two or in three annual instalments. *C* loans, which are given for payment of debts of large amount and for purchase or redemption of land, are repayable in three or four annual instalments. All repayments are due after the principal harvest. The committee has power to grant the longer periods mentioned for *B* and *C* loans, but the shorter periods are the rule. The committee is also given power to grant total suspension of repayment in cases of agricultural disasters; and thus the evils of a mechanical system are minimized. Systems somewhat similar in principle but differing in detail have prevailed in other provinces. In Bihar and Orissa, for example, it would appear that money laid out in seed and cultivation expenses should be invariably repaid from the crops of the particular year. When money is borrowed

for the purchase of cattle, one, two or, in exceptional cases, even three years may be given for repayment according to the means of the borrower. In regard to loans for unproductive purposes, such as domestic ceremonies, the terms of repayment should be rather hard than easy in order to discourage spending money on them. Loans for repayment of old debts should be treated with consideration and may be made payable by instalments leniently fixed. In one important respect, this scheme differs from that prevailing in Burma. In Burma all repayments are due after the principal harvest. But in the Bihar and Orissa scheme repayment by instalments spread over the year is preferred to payment in a lump sum at harvest. This for two reasons. First, if the agriculturists' calculations about a particular crop miscarry or the crop fails, payment in a lump sum becomes a great hardship. Second, constant collections and loans mean constant business for the committee and tend to keep their interest in the society alive throughout the year.

Short Term and Long Term Loans. An important distinction which is observed in co-operative loans is the distinction between short term and long term loans. Generally, short term loans are loans which are repayable in a year, whereas long term loans are repayable in longer periods than a year. Short term loans are given for such purposes as meeting cultivation expenses, paying land revenue, and defraying the cost of marriages and other social functions. Long

term loans are given for the purpose of making permanent improvements to land, purchasing cattle and implements, and discharging prior debts. Loans which are most in demand among members of village societies are short term loans, but it is clear that it is primarily through long term loans that the agriculturist can be helped to increase his productive capacity. Loans spent on making improvements to land and purchasing cattle and implements are necessarily larger in amount and the agriculturist cannot ordinarily repay them except in instalments spread over a fairly long period. The difficulty in granting long term loans is twofold. First, till a person has proved his character as a co-operator, loans granted in large amounts are likely to be a temptation for ill-considered and extravagant expenditure. Second, even in the case of members of proved character, it is difficult to give long term loans so long as co-operative banks obtain their funds mainly in the form of deposits for short periods hardly ever exceeding three years. Out of funds received as short deposits, it is not sound banking to grant loans for long periods. The money would be locked up and might land societies in financial embarrassment. Therefore until some arrangement is made for providing societies with funds which they will not be required to pay back soon, any extension of long term loans to members would be not merely unwise but impracticable.

Safe Custody of Funds. A difficult question which arises in many societies is to find a place for the safe custody of its funds. The usual practice is to deposit them either with the nearest post office savings bank or with some official of the society or with a member of the committee. The post office in many respects would make an excellent place for safe custody of funds, but it presents two difficulties which are sufficiently serious to prevent societies from making any considerable use of it. In the first place, post offices are to be found only in towns or in large villages; and these are often at a great distance from the smaller villages where co-operative societies find their usual field of work. In the second place, the formalities which must be complied with by people wishing to deposit money with a post office present great difficulty to the illiterate people of whom rural societies are mostly composed. Incorrect entries, due to ignorance of the rules, have caused troublesome journeys and delays which in some cases have proved fatal to the progress of societies. Some societies find the rule restricting the amount withdrawable at any particular time to a limited amount a somewhat serious inconvenience. Few societies can forecast their needs a long time ahead. For example, a member whose cattle have died suddenly cannot possibly wait till due notice has been given to the post office. Special facilities have now been accorded to co-operative societies in most provinces for withdrawing money from post offices at very short notice.

In spite of these lessened restrictions the delay caused by communications with the head post office, and by the laborious methods usual in a public department, makes the post office still a not completely acceptable place for safe custody to co-operative societies. But the absence of a public banking institution has not caused any great difficulty so far because, in most provinces, influential and well-to-do inhabitants have come forward in large numbers to support the co-operative movement; and among them it has not been difficult to find a president, a treasurer or a member of committee willing to take charge of the society's funds and fit to be trusted with them.

SECTION XI

Local Management

Importance of Local Management. The composition and employment of capital in a co-operative society, which has been discussed above, is one of the most important factors which determine its progress. The other factors on which its progress may be said to depend are the arrangements made (1) for their local management and (2) for their inspection, audit and supervision. In this section we shall deal with the local administration of societies.

General Meeting. The ultimate authority in all matters relating to the administration of a society is, in India as elsewhere, the general meeting of members. This ultimate authority must be a reality in every society which is truly co-operative. That is to say, it is not enough if the general meeting simply delegates its powers to some smaller executive body chosen by it periodically and gives it more or less complete freedom to do what it likes. This is what is usually done in a joint stock company. The board of directors exercise almost unreserved authority in every question touching the management of the business, and all that the shareholders do is, as a rule, to wait for their dividends. A co-operative society is in this respect essentially different from a joint stock company, and it can only retain its co-operative character to the extent that it is able to maintain among the members generally a sufficiently strong sense that the society belongs to them and demands their constant attention and interest. The usual practice in India is to hold one or sometimes two of the ordinary general meetings every year. But extraordinary general meetings may be held on special occasions at the instance of the managing committee, the Registrar of Co-operative Societies or of a sufficient number of members, generally at least a fifth of the aggregate number. At an annual general meeting the business of the society is (1) to elect the officers and the managing committee, (2) to review the progress, especially the

finances, of the society during the previous year, (3) to fix the total amount, and the rate of interest at which the society may borrow during the year, (4) to determine the borrowing capacity of each member, (5) to sanction and award remuneration, if necessary, to the officers of the society and (6) in some cases to consider the admission and expulsion of members.

Managing Committee. All the current business of the society is in the hands of a small executive committee chosen at the annual general meeting. This committee is usually called a *panchayat*, from the traditional designation of the ancient village committee in India. There is still such an instinctive regard for this time-honoured form of rural organization that an unacceptable scheme may often be rendered fairly tolerable by introducing into it the blessed word, *panchayat.* A committee usually consists of five members, but in certain provinces where it is difficult to find so many suitable men, the number of members is reduced to three. The committee meets as a rule at least once a month, but there are places where they do not meet more than once in three months. The current business of the society involves such duties as the following: (1) to consider applications for loans, (2) to settle questions regarding the admission and expulsion of members, (3) to receive deposits and loans, (4) to take steps for the recovery of overdue loans, (5) to check the accounts and see that the cash book is properly maintained, and (6) to allot moneys for the working expenses of

the society. The officers of a society are members of the managing committee. These are usually the chairman, the secretary and the treasurer. The last seldom exists as a separate office but is merged in one or other of the first two offices. All of them are elective offices, but while in some cases the election is in the hands of the general meeting, in others it is in the hands of the committee itself. All the offices are tenable for a year. It is commonly understood that both the officers and the other members of the committee should do their work gratuitously. But an exception is often made in the case of the secretary whose work is more laborious and demands more time than may be spared from his ordinary professional duties. The payment is made either by a fixed stipend or by a stipend supplemented by a commission calculated on the profits of the year.

Board of Supervisors. In addition to the managing committee it is usual in European countries to have a board of supervisors in each society. It is a small council elected like the managing committee at the annual general meeting and consists of members who are not on the managing committee. Its object is to keep a constant watch over the activities of the committee. It is to check the accounts of the committee, to verify the cash in hand, and to test the accuracy of the balance sheets. It is a kind of standing committee of local auditors appointed by the society from among its members, who, because they are independent

of the managing committee, are expected to discharge their duties as critics with strict impartiality. That this expectation, however, has not been altogether fulfilled, at any rate in Germany, is evident from the repeated comments of outside auditors complaining of the apathy of boards of supervisors.[1] The reason is that the managing committee and the board of supervisors are recruited from the same neighbourhood and practically the same social circle; and therefore, though they are technically independent bodies, they are not as a matter of fact sufficiently independent to criticize each other. In India, in the few provinces which have tried the system of boards of supervisors, this difficulty is enhanced by the fact that the general illiteracy of the village population makes it impossible to find sufficient men to fill both the managing committee and the board of supervisors; and recently the tendency has been to give up the practice of appointing boards of supervisors.

SECTION XII

Federations of Co-operative Societies

Various Classes of Central Societies. Federations of societies, called by the generic title of central societies, are of various kinds according to the functions which they perform.

[1] *Cahill's Report*, pp. 97–8.

Generally the two purposes served by central societies are the financing and the controlling of individual societies. But these and certain other functions subsidiary to them are discharged by central societies not in the same but in varying proportions, and each of the types which perform these varying functions has come to be called by a distinct name. For example, when a central society exists merely to organize and supervise individual societies without any necessary connexion with finance, they are called simply unions. Where besides organizing and supervising societies they undertake to guarantee the security of societies in their jurisdiction, they are called guaranteeing unions. Sometimes they combine the function of financing with that of supervision, and then they are called banking unions. There are other central societies which have nothing to do with supervision or organization, but exist simply to finance their constituent societies. These are called central banks. Sometimes the nomenclature of central societies varies also according to the administrative areas for which they are constituted. The term district bank, for instance, is employed to denote a central bank which serves the local societies situated in the administrative area known as a district.

Scope Afforded by the Act of 1912. As has been pointed out, the Co-operative Credit Societies Act of 1904, made no provision for central societies, and one of the chief reasons for which the Act of 1912, was passed was to remedy this

omission. The idea which apparently actuated the framers of the Act of 1904 was that urban societies would gradually take the place of supervising and financing organizations with regard to rural societies situated in surrounding areas. This was the idea which underlay the experimental societies which Mr. Dupernex started in the United Provinces in 1901. But the idea hardly received any justification in practice, and the Act of 1912 provided that 'a society which has as its object the promotion of the economic interests of its members in accordance with co-operative principles *or a society established with the object of facilitating the operations of such society,* may be registered under the Act.' The scope thus opened out for the formation of central societies has been abundantly used in co-ordinating and strengthening individual societies. The idea is being more clearly recognized that an individual society's relation to a central society is not that of a branch to a parent society but rather of an affiliated society in a federation of completely independent societies. The primary thing in co-operation is that each individual society must do its utmost to strengthen its own position; no effort on the part of a central society can replace the initiative and independent effort of a constituent society. But within this limit a central society, by providing opportunities of mutual inspection and control and by combining the credit of individual societies for their mutual advantage, can do a great deal for the extension and strengthening of the co-operative movement.

Local Unions. Unions, or local unions as they are called in some provinces, are federations of societies, situated in a small local area, comprising generally thirty to fifty societies organized for the purpose of mutual supervision. They undertake no financial liability on behalf of the constituent societies but their local knowledge and their intimate interest in the society are often utilized by central banks in deciding on applications for loans from primary societies. Generally unions discharge their function of supervising societies through a paid official of the union called a supervisor. The funds required for paying the supervisor and for meeting the other incidental expenses of the union are raised partly by the levy of a small percentage on the interest on loans to primary societies and partly by contributions from the central bank. Unions are still somewhat in the experimental stage, but the idea of linking societies which are situated sufficiently close to one another in an organization for co-operative supervision has so much to recommend it that their future development deserves to be watched with the greatest interest.

Guaranteeing Unions. The most conspicuous instance of the system of guaranteeing unions is to be found in Burma where in 1922-23 there were as many as 600 such unions. Every rural credit society in Burma is recommended to join a union as soon as five or more societies have been formed near enough to each other for mutual supervision to be effective, generally within about eight miles from some convenient

centre. The union fixes the borrowing limit of each society at its general meeting at which two-thirds of the societies must be represented each by two members of the committee. The general meeting also appoints a committee which can represent the union and which takes a leading part in its affairs. The union collects a rate from the constituent societies at four to twelve annas on every hundred rupees of the working capital, and this is their sole source of funds. In some districts the unions combine to employ inspectors, who are generally men who have shown themselves competent as secretaries of village societies and have acquired further training by working with the Government staff. Their chief business is to improve the keeping of accounts, checking books and instructing the secretaries in their duties. They are useful also in other ways on account of their local knowledge and influence. Where inspectors are not employed, their duty is performed by the secretaries of the union. The financial part of the arrangement, which is what distinguishes a guaranteeing union from a purely supervisory union, is that the union undertakes to guarantee the security of the constituent societies, and the societies in their turn are required to pledge themselves for each other's liability. The liability of each society is limited to an amount equal to the society's own borrowings during the year preceding the date of default. There has been a great deal of controversy with regard to the formation of guaranteeing unions in India and on the whole

co-operative opinion appears to be against it. The chief objection is that it is difficult as a matter of practice to get societies to undertake financial liability for one another. Moreover, the acceptance of liability by an intermediary organization tends to take away to some extent from the sense of responsibility of central banks. The system has met with acceptance chiefly in Burma and the Central Provinces.

Circumstances Leading to Formation of Central Banks. The area usually served by a central bank is some recognized administrative unit such as a district or a sub-division of a district. It may be said that the formation of central banks has been due to the difficulty generally felt by village societies in raising sufficient capital for their purposes. Broadly there are four agencies in a village on whom rural societies can draw for funds, namely, members who become depositors, the village moneylender, Government, and friendly capitalists. The first is seldom a very fruitful source of capital, because most members join the society for borrowing money and have seldom any money to deposit; as regards the second, the moneylender cannot be expected at least in the early stages to support a movement which threatens to deprive him of his occupation; thirdly, Government used to assist societies with funds in several cases to help them over initial difficulties, but the tendency in recent years, increasingly and rightly, has been to regard government support with disfavour as

tending to impair self-help and independent growth; and the last is liable to be a somewhat uncertain factor because the money available in the hands of a local capitalist depends on the state of the harvest which is subject to frequent and considerable fluctuation. The large joint stock banks in the bigger cities do not, for reasons which have been explained, think it expedient to grant loans to rural credit societies. It follows, therefore, that if societies are to get a sufficient supply of capital to meet their current needs—and the success of a society depends largely on the way these current requirements are met—it can only be supplied by societies combining their various credits in some central organization in touch with the general money market and with sufficient tangible security to draw upon for the needs of its constituent societies.

Central Societies to Proceed from Below. It is probable that the right way of starting central societies, whether for finance, supervision or organization, is to proceed from below upwards. That is to say, there must first of all be a sufficient number of individual societies in a particular area; and when these societies begin to feel the kind of difficulties mentioned above, they should be helped to form a central co-operative organization consisting of representatives from the societies, and if need be, of individual capitalists who may be willing to help financially and with skilled advice. Out of these central organizations may be formed similarly, if necessary, one or

more superior grades of central societies to co-ordinate and assist the central societies below them. The point is that it is better as far as possible to start the co-operative movement with individual local societies and then work upwards from them to central societies. Otherwise, a central society might be tempted, partly in justification of its own existence, to introduce societies in places where the need for them is not keenly felt, and to force them, when started, into set forms not altogether suited to them. It happens also that a central society started without the initiative of local societies assumes too often the appearance of a philanthropic organization, conferring favours upon them rather than stimulating their sense of responsibility. In Ireland, for example, it appears that the Agricultural Organization Society, which is the central organization for the co-operative movement, has suffered to a certain extent from the fact that its origin was inspired primarily by a group of able and enthusiastic friends of co-operation at headquarters before the local societies themselves were in a position to appreciate its advantages fully. The result is that it has failed to enlist that amount of financial support from its constituent societies to which its admirable work on behalf of the co-operative movement fully entitles it. In 1914 the number of co-operative societies in Ireland was 1023 with a membership of 106,000 and a total turnover of something over three million pounds. But the amount contributed by them to the Agricultural

Organization Society for the year, including both affiliation fees and voluntary subscriptions, hardly amounted to £2,000.[1]

Order Followed in India. The practice which has been actually followed in this respect in regard to finance in the different provinces of India has one common feature, namely, that co-operators have everywhere waited for the formation of a certain number of strong individual societies before starting any form of central organization. The difference occurs in regard to the order in which the several grades of central societies have been formed. In Madras the first step in the way of central organization was to start what in effect is a central bank for the whole province, and following this there were started central banks for districts. In the United Provinces the first step was to start district banks, and then from district banks it was decided to proceed to start banks for sub-divisions of a district. In the Punjab there was a considerable extension of central banks at district headquarters in 1909 and for some time after. The process seemed to the Registrar in the Punjab too rapid at the time, considering the rate at which local societies were making progress. In his report for 1910, he made the following remark on the subject: 'It must be admitted that these central banks are not taking their proper place in the development of societies. They should properly be products of the societies—

[1] *Report of the I. A. O. S.* 1914-5. p. 146.

something which finally cements their growth and organization—instead of coming before them in point of time. The result is that the societies have to adjust themselves to the requirements of the central bank, whereas the central bank should be formed to suit their requirements.' A reform which was attempted for meeting the situation was to make the central banks formed since merely temporary creations, that is, they were simply a number of depositors who agreed to put in a certain amount each for three years. After this period the bank could be moulded into any form which might be considered suitable.

Central Banks of Three Classes. Central banks in India may be, broadly, divided into three classes: (1) banks of which only individuals are members; (2) banks of which only societies are members; and (3) banks which include both societies and individuals. The first class consists of banks in which all the shareholders are individuals or in which, if societies are admitted as shareholders at all, they merely rank as individual shareholders without any right to special treatment as regards representation or allotment of shares. The second class consists of societies only and differs in that respect from the first and third classes. The first and third equally admit societies as shareholders along with individual members; the difference between them is with regard to the terms on which societies are admitted. In the third type of banks, societies which come in as members are assigned a

fixed proportion of shares, they are also given separate representation on the board of directors; whereas in the first they come in on the same footing as individual shareholders with no preferential rights at all. Central banks of this type to a large extent resemble the ordinary joint stock bank.

Central Bank of the Mixed Type. The Committee on Co-operation (1915) were on the whole in favour of the third class of banks. Their report contains an interesting discussion of the relative merits of the three types. The chief objection against the first is that a society consisting almost entirely of individuals casually recruited from areas wide apart and of societies regarded exactly as individuals cannot in any real sense be considered co-operative. They tend to degenerate into the position of mere joint stock banks concerned chiefly with their rate of dividend; and while they are undoubtedly of use in supplying capital, their influence tends to retard the growth of the co-operative principle. The objection against the second class is that a central bank consisting entirely of representatives of rural societies will necessarily be deprived on that account of the services of capable and enlightened workers belonging to the professional middle classes who live in cities. Apart from the obvious loss of efficiency which this must mean, it takes away from what are called the educated classes in India one of the most attractive fields of constructive social work which now exist in the country. It is partly on account of its fitness

to satisfy this growing need that the third class of central banks must be commended. They allow societies as such to hold shares and to be represented on them; and at the same time admit individual capitalists as shareholders and grant them the right to participate in the administration. The only danger in regard to this class of banks is that if individual shareholders increase to such an extent as to obtain undue control of the management, there is some possibility of their being turned into mere dividend-making concerns. So long as this could be avoided, they should continue to justify their present preponderance in the Indian co-operative system and to be extended still further as the best form of central organization.

Management. The management of a central bank is nearly always in the hands of an honorary committee or board of directors. The members of committees and boards are not men who necessarily possess any technical knowledge of banking or any skilled experience n finance. They are chosen rather for their ocal influence and for their general capacity nd common sense. In this respect they form a reat contrast with joint stock banks where an xpert manager or managing director is an evitable feature. This is because of a certain ep difference between joint stock banks and ntral co-operative banks in the character their business. 'A joint stock banker must derstand trade and finance, possess a rough knowledge of commercial law and ck exchange practice, be competent to deal

with bailment and monetary business and skilled in judging men and selecting the right sort of business. A co-operative banker, on the other hand, needs only to have a general understanding of money rates and to fix his own rates so as to produce the margin of profit required to carry on the bank on sound lines; he should be able to forecast probable receipts and demands from societies, to maintain careful accounts, and to see that his working capital is regularly employed and that sufficient fluid resource is always kept available. He needs to exercise very little discrimination in the selection of business, and in the important work of assessing credit reliance is placed either on the reports of unions or on information supplied by directors who for this purpose need not so much a business training as local knowledge and common sense.'[1]

The general arrangement in a central bank for the despatch of business is somewhat as follows: The managing committee or board of directors is in general charge of the work. The urgent work of a current nature is entrusted to a sub-committee working under it. Where current work is merely of a routine character, it is usually done by the chairman or by the secretary or manager. Meetings of the board are held as a rule every month. The directors are honorary workers, and besides their general duties on the board they are expected to help in supervising societies in their jurisdiction and

[1] *Report of Committee on Co-operation*, 1915. p. 70.

to use their influence in raising deposits locally For this purpose sometimes the area served by a bank is divided into definite portions, each allotted to a director. In some banks paid managers and assistants are employed to help the directors. There are also groups of small societies which employ paid secretaries to keep the accounts of their constituents and to form a channel of communication between them and the central society. These paid officers are strictly prohibited from exercising any control over the distribution of loans or from having any share in realizing them or keeping the balance. Supervisors are also employed to inspect affiliated societies at least once a month and to instruct them in matters relating to co-operative business.

Functions. The financial function of a central bank is to a large extent the centre of its activities. This function is of two kinds: (1) balancing the funds of societies; and (2) supplying capital. One main difference between central banks in Europe and in India is that, in the former, the chief function of central banks is to balance funds, that is, to take over money where and when there is a surplus, and to distribute it where and when there is a deficiency of capital; whereas in India their chief function is to attract money from outside sources into the co-operative movement. Another difference is to be found in the area served by central banks in India and Europe respectively. In India they are generally intended for minor administrative areas such as a district or part

of a district while in a country like Germany a central bank as a rule serves a whole state. Allowance, however, must be made for the fact that a district in India, though a minor administrative unit, is a very extensive area and the difficulty of serving it is increased by the absence of sufficient means of communication.

Sources of Capital. Central banks have four principal sources of capital: (1) loans; (2) shares; (3) deposits; and (4) reserve funds. Of these deposits constitute by far the largest item.

Loans. The loans received by central banks come from the following sources: (1) outside banks; (2) other central banks; (3) provincial co-operative banks. Of these the largest contributor is the provincial co-operative bank, which is the central bank for a whole province. The outside banks which grant loans are joint stock banks, either the Imperial Bank which does business for Government or the ordinary commercial banks. Loans from the Imperial Bank take generally the form of cash credits at moderate rates, approaching in some provinces the usual bank rate. Advances from ordinary commercial banks take the form either of loans or of cash credits, more frequently the latter. The Imperial Bank usually requires for its loans the signatures of two approved parties and the loans are limited to a period of six months. The other commercial banks do not require any formality other than a bond or promissory note from the borrowing society, and the loans are issued either on demand or

on three or six months' notice. Where provincial co-operative banks have been started, it is the practice to discourage loans from one central bank to another except where they are made through the provincial bank.

Shares. Shares in a central bank are subscribed either by individuals or by societies. In banks of the mixed type, where there are both individuals and societies as shareholders, it is the custom to give preferential treatment to the shares of individual capitalists with the object of attracting as much outside capital as possible. The size of a single share varies from ten rupees to as high as 500 rupees. The extent of share capital which may be held in a central bank by any one individual is limited by law to a total sum of 1,000 rupees or a fifth of the aggregate share capital, whichever may be less. Voting power is generally regulated according to the number of shares subscribed, but the exact proportion between the number of votes and of shares varies in different parts. Central banks, by their very nature, are based on limited liability. It is impossible for banks serving such wide areas, with members possessing no means of intimate mutual knowledge, to accept the principle of unlimited liability. The ordinary rule is to limit the liability to the face value of shares. But in some provinces the liability is raised to some multiple, generally from four to ten times the face value. This practice has been objected to on the ground that such divergence between the value of a person's share and the extent of

his liability is apt to make it more difficult for the public to realize the amount of security possessed by a bank; and the proposal has been made that instead of fixing a member's liability at some multiple of the face value of his shares, it may be less misleading to raise the face value of shares, to the required degree of liability or else to attach some measure of reserve liability to the shares. The practice of attaching reserve liability to shares is in vogue in some provinces. The idea of a reserve liability is that instead of a member actually paying up the whole of the share capital due from him, he undertakes in effect to pay up the remainder when the bank is in liquidation or whenever it has to meet a demand which is beyond its ordinary resources. Reserve liability is an English idea, and its application to India is liable to difficulties arising from the peculiar circumstances of the country. In a country of vast and difficult distances, with a family law which gives joint rights of property to its members and a comparatively slow system of civil judicial procedure, the collection of unpaid portions of shares in a time of emergency is liable to be beset with great difficulty.

Deposits. Central banks receive their deposits either from affiliated societies or from individual capitalists belonging generally to what may be called the middle classes. Deposits from affiliated societies may be divided broadly into three classes: (1) deposits received by them in excess of their ordinary requirements and

handed over to central banks; (2) small sums deposited for short periods; and (3) reserve funds which in some provinces are deposited in central banks either compulsorily or as a matter of practice. Deposits from individual capitalists come from members of the professional classes, such as lawyers, schoolmasters and doctors, and from the landowning and mercantile classes. To a considerable extent these are also the classes among whom joint stock banks must find their *clientele* and there is apt to be a certain clash of interests in this respect between central banks and joint stock banks. It has however been suggested, with a great degree of probability, that this conflict is to a large extent rather apparent than real. Though the money comes from practically the same classes, it seems probable that deposits in central banks come from money which otherwise would have been invested in some more secure investment than joint stock banks. If this is true, as seems very likely, then central banks are really tapping a new source of capital and do not merely divert capital from joint stock banks. Even in the few cases where capital has been diverted from joint stock banks, it must be remembered that any temporary loss which ley may suffer will be more than made good ltimately by the enormous impulse to saving hich results from the spread of co-operative inks. The vast mass of hoarded wealth hich lies economically unused in India nstitutes a great field of potential investment

for joint stock banks. But that could only be got at by breaking down the age-long tradition against public investment. This is difficult work, but one of the few promising ways of setting about it seems to be to work through co-operative banks and, as it were coax capital out of its hidden repositories. The area within which a central bank may collect deposits has been restricted in some provinces to the limits of its own local jurisdiction. That is to say, where for instance a central bank exists for a district, it must not go outside the district in search of deposits. The practice is based on the sound principle that local deposits are among the most steady sources of capital to a co-operative bank and that an increase of local deposits means a corresponding increase in the number of local men interested in the work of the bank. The Committee on Co-operation (1915)[1] were inclined to relax the rule restricting deposits to the local jurisdiction of each bank on the ground that the chief evil of allowing banks to go anywhere they liked in search of deposits was the possible inducement to rash speculation which it might offer, but since speculation by co-operative banks is debarred by law in India, the danger, of course, does not arise. This consideration, however, does not altogether solve the question, because if provincial co-operative banks are started in all the provinces, as they have already been in some, then to allow central banks to go out of

[1] pp. 76-7.

their jurisdiction in search of deposits would be to open the way for rivalry between them and the provincial bank. So long as a provincial bank is admitted to have its uses and central banks find it a convenience, if not a necessity, it is unreasonable to allow the one to compete with the other. The rate of interest paid by central banks on their deposits varies from five to seven per cent on one year's deposits. On deposits for longer periods than a year, an increase of from a half to one per cent is allowed for each additional year. The necessity for a strict repayment of deposits is even greater in the case of central banks than of rural societies, because the *clientele* of a central bank are mostly men accustomed to regular commercial business and likely to be less indulgent.

Reserve Fund. The reserve fund of a central bank is regulated, like that of the co-operative societies, by Section 33 of *The Co-operative Societies Act (1912)*. The effect of this section is that central banks, as societies of limited liability, are required to carry to a reserve fund at least one-fourth of the net profits in any year. This reserve fund may be either held in cash or readily realizable securities or invested in the business of the society as working capital or in some other suitable form of investment. The point arises whether in the present stage of small accumulated profits it is advisable to lock up any portion of it in investments which may not be readily realized. The balance of argument appears to be in favour of keeping the profits as far as possible in the form of cash or

adily realizable securities. The main reason r maintaining a reserve fund in a central bank that it may provide a source of capital in a me of crisis. Such a crisis arises when, for ıstance, owing to some agricultural or other isturbance, there is a failure of new deposits rithout any abatement of the usual demands rom existing depositors for repayment of their noney and from affiliated societies for loans to neet their working expenses. The demands rom affiliated societies are as a rule heavier in ı time of agricultural stress and central banks cannot afford to neglect them without materially damaging their position in the eyes of their constituents.

Cash Reserve. The experience of co-operative banks in India has been so short that the materials for fixing a minimum standard of reserve are slight. But it was suggested by the Committee on Co-operation (1915) that a reasonable estimate of the funds to be kept in reserve in an easily realizable form would be the total amount required in the course of a half year, if no new deposits or other capital were forthcoming during the period and all the ordinary demands had to be met as usual.

Other Funds. Besides forming reserve funds, the profits of central banks are in some cases utilized for the creation of certain special funds, generally of three kinds: (1) a fund for equalizing dividends; (2) a contingent fund for meeting bad debts; and (3) a building fund. The buildings of most central banks consist now of rented houses of a humble and unattractive

kind. Both for central banks and for rural societies a good building of sufficient attraction to impress the inhabitants of the locality is a great desideratum. As a concrete embodiment of the co-operative idea and a proof that the local society is really alive, it may be of material help in furthering the work done by co-operative societies. Up to now this matter has received but little attention.

Rate of Interest. The rate of interest which central banks charge on loans to affiliated societies is of course lower than the current rate of interest among the classes for which they cater. But it is generally fixed high enough to secure a wide margin between the rates at which money is borrowed and lent. This margin of profit is necessary for meeting the somewhat heavy establishment and other charges and for building up the reserve fund and the various special funds referred to before. The establishment charges of a central bank include in many cases the cost of supervising and inspecting the affiliated societies. According to the general practice followed at present, no distinction is made as regards the rate of interest between affiliated societies possessing different degrees of efficiency or between loans granted for short and for long terms. In estimating the credit allowed to each individual society, the usual procedure, where there is a co-operative union, is to obtain the advice of the union on the material and moral assets of the society. In places where there is no union, the central bank itself collects the necessary

information. As a co-operative institution, the chief consideration of the central bank is, or should be, the moral assets of the borrowing society. By this is meant the extent to which the society has been able to develop a true spirit of co-operation and mutual obligation and has insisted on a proper degree of discrimination in the selection of members. But as we noted in the discussion of different forms of security in local societies, though the personal qualities of a member are the best security in a co-operative sense which he can offer, it may in many cases be useful to supplement personal security by some form of material security. The same principle applies largely to transactions between central banks and their affiliated societies. To a certain extent joint stock banks also take both forms of security into consideration when they grant loans. But the difference between joint stock banks and central co-operative banks in this respect is that the latter looks or ought to look first to the moral asset while the former look first to the material asset. The principal data on which the material assets of a borrowing society are estimated are, first, the total value of the movable and immovable property owned by the members of the society, and, second, the earning and saving capacity of each individual member. The process of estimating the total property of members is rendered rather easier in some provinces in North India by the existence of *haisiyats*, that is, of registers duly prepared to show the extent and market

value of the land, carts and cattle possessed by each member and of his house and other realizable property. It is the practice in some places for central banks to grant loans to individuals as well as to affiliated societies. The assumption which underlies the practice appears to be that since in many societies individuals also are admitted as shareholders, they are equally entitled to participate in the benefits of societies. The assumption is wrong, because in the first place, if central banks start to do business with individuals also, they will run the risk of losing their co-operative character altogether and there will be little to distinguish them from joint stock banks; and in the second place, in the present stage of the co-operative movement in India, the resources of central banks are so small and the needs of agricultural societies are so great that it is impossible except on occasions when money is abundant to take on outside work without doing harm to the movement.

Provincial Banks. The formation of a central co-operative organization for each province is now one of the recognized features in the development of co-operation in India. Already there are several provinces which have tried the experiment. The experiments in the various provinces have proceeded on widely differing lines. In some cases provincial banks seem to have developed almost accidentally. That is, they were started primarily to supply the needs of individual societies in particular areas or among particular classes, but they gradually

adapted themselves to new opportunities as they came, until they attained, practically although not quite admittedly, to the position of provincial banks. In Burma, for example, the Upper Burma Central Bank served such a large part of the whole province that its character could not very well be distinguished from that of a provincial bank. In Madras the Central Urban Bank began to accept surpluses from, and lend money to, district banks on a scale which made it from the beginning practically a provincial bank for the presidency. In the Central Provinces and in Bihar and Orissa, provincial banks were started as such to help central banks in their respective areas with cash credits and loans of money and to accept their surpluses during slack months for investment. A unique example of a provincial bank is the Bombay Central Co-operative Bank. Its constitution is briefly as follows. The bank may issue shares to the value of 700,000 rupees in the first instance. With this fund as a basis of credit, it may issue debentures to an amount not exceeding three times the paid-up capital at a rate of four per cent. This rate of interest is guaranteed by the provincial government. The shares were subscribed for within seven days of the issue, and the number of shareholders is about 1,000. The face value of each share is fifty rupees. Sufficient capital has been raised to meet the needs of the bank with deposits at four or four and a half per cent. 'The bank may not charge more than eight per cent on loans advanced to societies and after earning a

dividend of six per cent on its shares and meeting the sinking fund must utilize the remainder of its net profit in granting rebates of interest to societies which have borrowed from it.'[1] The work of the bank has been practically of a three-fold character. First, it has granted loans for long terms to rural co-operative societies. Secondly, it has financed a large enterprise in the cultivation of sugar-cane. And thirdly and lastly, it has granted short loans for the purchase of fodder to rural societies in certain famine-stricken areas.

Membership of Provincial Banks. Provincial banks are now in existence in the following provinces: Madras, Bombay, Bengal, Bihar and Orissa, Burma, and Central Provinces and Berar. The following figures show the distribution of their membership among individuals and societies during 1922–23:

	Individuals	Societies
Madras ...	397	90
Bombay ...	789	179
Bengal ...	...	89
Bihar and Orissa.	22	32
Burma ...	293	2,495
Central Provinces and Berar ...	...	2,259

Except in Madras and Bombay and to a small extent in Central Provinces and Berar, loans are given entirely to societies. The largest proportion of loans to individuals is

[1] *Manual of Co-operative Societies in Bombay.* R. B. Ewbank. 1914. p. 121.

found in Bombay. Where loans are granted to primary societies, the practice is increasingly for the provincial banks to lend through the central banks. Otherwise the provincial banks would have no means of controlling the central banks and that co-ordination of existing provincial agencies which is one of the objects of a true provincial bank would not be attained.

Their Uses. Two chief requisites of a central bank are, first, the ability to borrow money at short notice from some bank of good financial standing, a need which is felt most strongly in times of agricultural or commercial stress when rural societies are thrown largely on the resources of central banks for their ordinary requirements; and, second, adequate opportunities for investing their surplus funds, so as to avoid the possibility of money lying idle in their hands at slack seasons when agricultural operations are at a standstill. With regard to both these requisites a provincial bank will prove of great advantage to central banks. In the absence of a provincial bank, practically the only way of borrowing or lending money is for central banks to communicate with each other or to obtain the assistance of the Registrar of Co-operative Societies. At present central banks with their more or less untrained staffs, their comparative lack of organization and their disadvantageous situation in relation to each other, cannot undertake to lend and borrow among themselves without much loss of time, efficiency and profit. And the Registrar, though his position as head of the

co-operative department, in the province gives him considerable advantage in dealing with central banks, is already so burdened with work that he cannot be reasonably expected to take up in addition the somewhat exacting duties of a provincial bank. A provincial bank is much better fitted to carry on such work than either central banks or the Registrar. In addition to other advantages, it would be in possession of sufficient capital and business equipment to command the confidence of the richer urban classes. Central banks in their present form have not been able to make as much impression on the urban classes in their locality as they might, and the assistance of a provincial bank would be of great use. But here is also a possible disadvantage of provincial banks. The help which they offer to central banks may have possibly the effect of preventing the latter from putting forth their best effort to raise local deposits. After all, local deposits must be the mainstay of every central bank, and anything that hinders local deposits affects the bank harmfully. Whenever a provincial bank is started, it is necessary that the central banks within its jurisdiction should undertake to deal with it exclusively and to refuse deposits and loans from outside the area they serve, except with the permission of the provincial bank. Otherwise there would be not merely confusion of liabilities but a loss of custom and prestige to the provincial bank which, at least in the early stages, it can ill afford to sustain. On its side the provincial bank must be prepared

to carry on all dealing with local societies through the central banks, and not, as is even now done in certain provinces, deal with rural societies over the heads of the central banks.

Relation of Central and Provincial Banks. An interesting question which has been discussed in India in this connexion is whether it would be advisable to make central banks simply branches of the provincial bank controlled from head quarters by the board of directors of the provincial bank and worked locally by a manager employed and paid by the latter. The question is whether central banks should be so many completely self-governing local bodies federated by means of a provincial bank or whether they should be simply institutions organized and controlled from above. Put in this form the question presents little difficulty since no institution in which there is not enough room for local initiative and self-government can be co-operative in any true sense of the term. The chief argument for making them branches of the provincial bank is that they gain in efficiency and economy by the increased banking skill and experience that would be available to them and by greater concentration of capital. On the other hand, it must be remembered that one of the great uses of central banks at different business and official centres in a province is the opportunity which they afford to the educated classes for taking a practical interest in a useful form of social work. This aspect of the co-operative movement has an importance under present

conditions which it is difficult to exaggerate. Where a central bank is managed from above by a paid staff there will be less incentive for the exercise of local initiative and public spirit. It is also possible that the efficiency and economy which is gained by the employment of a paid staff will be neutralized by the loss of energy and responsibility which follows the replacement of gratuitous by salaried service.

Joint Stock Banks and Co-operation. At this point it is convenient to refer to the part played by the large commercial banks—the Imperial Bank and private joint stock banks—in the scheme of co-operative finance. There are two ways principally in which they can help co-operative societies. In a completely organized provincial system—that is, a system under which societies are organized into the three recognized grades of local societies, central banks and the provincial bank—the dealings of outside banks would be as a rule with the provincial bank as the centre of co-operative organization in the province. Now, a provincial bank may require the assistance of joint stock banks for two purposes chiefly—first, to obtain funds for carrying on its ordinary business and that of its constituent societies, and second, in an emergency to turn readily into cash the paper and other securities on which it has granted loans. These securities generally consist of promissory notes or other negotiable instruments executed by borrowing societies in favour of the provincial bank. It would be a very great convenience to the latter, if not

a necessity, to find a bank of standing in the province which would discount these bills etc. for it. The advantage is that where these paper securities are accepted for re-discount by a commercial bank, it means that the provincial bank possesses in these securities, not capital which is locked up for the time being in an unrealizable form, but so much liquid capital which it may use as equivalent to cash in every emergency that may arise. At present in India it may be said that practically there is no joint stock bank which undertakes to do this service for co-operative societies. Where there are exceptions, they have been due chiefly to the personal influence of some manager or other official of a joint stock bank who has interested himself in a special degree in co-operation. The question has therefore been raised whether it is not advisable to have a State bank in every province which will undertake to re-discount the bills of a co-operative bank. This question, however, raises financial issues of such a far-reaching and complicated character as to put it outside the scope of a work on co-operation.

Loans by Joint Stock Banks. With regard to the first form of service which joint stock banks may perform, namely, to lend money for the ordinary requirements of co-operative societies, there is evidence that in some provinces much help has been rendered to the co-operative movement in this way. Such help is given in two ways; (1) giving cash credits; and (2) granting loans for some fixed period. In Madras, the Imperial Bank has granted the

Central Urban Bank, which is the provincial co-operative bank in Madras, a drawing account; and similarly the Indian Bank Ltd., some years ago granted a drawing account to the district co-operative bank in Salem. The money was lent at 6½ per cent and received back in part payments according to the convenience of the co-operative bank with interest on the daily balances. The rate of interest was fixed slightly higher than that at which the bank could raise local deposits. The reason is that it offered some inducement to the co-operative bank to do its utmost for raising deposits locally and to prevent it from resorting too hastily to the facility afforded by a commercial bank. In other provinces also the Imperial Bank has opened cash credits with various co-operative banks. The recognized principle is that where there is a properly constituted provincial bank, all overdrafts from the Imperial Bank should be granted, as far as possible, through the provincial bank. It is worth while remarking in all these cases that the advantage does not rest solely on the side of co-operative societies. If joint stock banks in India are to rise to the full measure of their opportunities, they must apply themselves much more than they do now to the main industry of the country which is agriculture. And they cannot do that effectively except by working through co-operative societies.

SECTION XIII

The State and the Co-operative Movement

Sir Horace Plunkett on State Assistance. What is the right attitude of the State towards the co-operative movement? This is a question which has given rise to a great deal of controversy both in India and in European countries. A Registrar of Co-operative Societies in one of the Indian provinces summed up the position in these words. 'As far as the State and the co-operative movement are concerned, the true art of administration will be found, I suggest, in accurately placing the line which is to separate self-help pure and simple from State aided self-help. This line is by no means immutable but must from time to time be shifted backwards or forwards.'[1] 'State aided self-help,' on the whole, correctly represents the present position of co-operative societies in this respect. The difference between one country and another often turns on the extent to which State-aid or self-help predominates in the co-operative system of each. Where to draw the line between the two is one of the most difficult problems of practical administration in the co-operative movement of every country. Sir Horace Plunkett on a memorable occasion laid down that 'State assistance should be so given as to evoke and supplement, but on no account

[1] H. R. Crosthwaite. *Co-operative Conference, Central Provinces*, September 1913.

to provide a substitute for, voluntary effort.' The occasion was the founding of the Department of Agriculture and Technical Instruction in Ireland on the recommendation of a representative committee of Irishmen, commonly called the Recess Committee. The Irish Agricultural Organization Society which is an independent body for the promotion of agricultural co-operation had been in existence for some time before, and the question of the proper relation between it and the new department required to be settled. The idea which ultimately found acceptance was that government assistance should be given for educating the people in the business of agriculture and in the principles and methods of co-operation; but where education stopped and the business activity of the movement began, government assistance should cease. It is the part of government to prepare people for such business as lies before them, but not to help in actually carrying on business. This is what Sir Horace Plunkett meant, and as a general proposition, it seems a sound appreciation of the relation of the State to agricultural co-operation.

Difference Between India and Europe. The essential difference between India and European countries is that in Europe the initial impulse to the formation of co-operative societies came from leaders of the people, who felt the pressure of adverse economic conditions and sought for a solution in co-operation. At first the attitude of the State, instead of being friendly, was one of positive hostility; it was

only when the co-operative idea had been worked out to some extent and had proved its usefulness to the community that the State recognized any obligation to support it. It has been just the other way about in India. Here the initial impulse came from Government; the prejudice was not on the part of the State but chiefly among the moneylending class who felt their occupation threatened, and in a smaller measure, among the very peasantry for whose relief the co-operative idea was introduced. The State in India is therefore identified in a very intimate way with the co-operative movement. As a writer in the *Bulletin of the International Agricultural Institute* expressed it, the progress of co-operative societies in India has been 'an illustration of State aid effectively administered rather than of organized self-help.' The problem in India, therefore, is one of gradually surrendering the powers hitherto exercised by the State in the organization, management and supervision of societies in favour of independent federations of co-operative societies. There is no question under present circumstances of any considerable immediate relaxation in respect of control by audit, but that the way must be paved for a much larger scope for the exercise of popular initiative and self-control in other respects is generally agreed to.

Evils of State Interference. This implies of course that though under certain conditions State assistance may be held to be necessary and inevitable, it is not a factor which is

generally desirable in itself. Mr. H. W. Wolf in his book, *People's Banks*, discusses at some length the results of State help in co-operation with on the whole a decided leaning towards reducing State interference to a minimum. His views on the evils of State interference may be summarized as follows. First *where the activity of the State is propagandist* Though the formation of a large number of societies may appear to be a desirable object it is much more desirable to make the societies sound by resting them on their own strength and resources. Government propaganda is apt to stimulate the creation of societies artificially by starting them in places where the inhabitants have not shown any aptitude or desire for co-operation. Second *where the State gives financial help.* Here there is first the general consideration that State help is apt to impair the self-reliance of societies. There is also the equally real danger that when the State uses its prestige and resources to help societies with money, money is liable to be looked upon as the important thing in a co-operative credit society. Now it is not so much money, as *security* which can command money, which it ought to be the aim of co-operative societies to increase. Third *where the State inspects and controls societies* Government inspection is apt to degenerate into a mere formality. Even at its best, it cannot do more than see that certain standard

[1] Chap. ix.

requirements have been satisfied. One great danger is that when the State is concerned in the inspection of societies, the general public are apt to imagine, without sufficient grounds, that the mere fact of State inspection is a guarantee that the societies are proceeding on sound lines. A well known instance of this is the failure of the Haas Union of Co-operative Banks in Germany. Its recognized connexion with the State so blinded the public to the duty of watching the real progress of the business that a huge and sudden failure was the result.[1]

Government of India on State Help. The position of the Government was summed up by the Government of India in their resolution on co-operation in 1914 in these words: 'Whatever limitations may be suitable as regards the assistance of Government in European countries (and in no country is the movement entirely independent of Government aid), it is certain that in India without initiative and help from Government, co-operation would still be unknown. Government alone was in a position to supply the knowledge and organization necessary to start the work, and Government alone is able by its association with the movement to create the outside confidence necessary to give it stability. Registrars are not, and are not intended to be, merely registering officers; they are also

[1] It is worth while remarking that Mr. Wolff in his writings on Indian co-operation has often recognized the need for a considerable measure of Government control in view of the special circumstances of the country.

expected to provide supervision, assistance, counsel and control. It is not to be imagined that societies will become perfect models of co-operation on formation, and it is necessary that Government, through its own and the societies' staff, should continue their co-operative education long after they are registered. Unless a society is co-operative in fact as well as in name—and it can only be so if all its members understand the main principles—it is a fraud on its members and on the public. The fact, too, that societies, though primarily self-contained and self-governed, are subject to supervision by Government officers, has an important effect in attracting public confidence, and the benefits thus accruing to the country at large fully justify the expenditure of public money on official supervision. Lastly, the co-operative movement, by bringing the officers of Government into close touch with the people in economic matters, provides opportunities for developing those closer relations in other respects which it is so desirable to foster.'[1]

Present Position. It must be pointed out that the above statement, however true at the time it was written, does not represent the policy of the Government at present. Important changes have occurred in several directions since the above resolution was issued. In the first place, co-operation is a transferred subject under the reformed scheme of government and

[1] Resolution, June 17, 1914. Para. 2.

is necessarily influenced to a much larger extent by public opinion as expressed in the legislature. In the second place, opinion among co-operative officials themselves has changed materially since ten years ago. A steady transference of the duties of organization and supervision to local unions and to honorary assistant registrars is now a recognized policy in the co-operative departments, and in some provinces at any rate a great deal of headway has been made in this respect. It is undoubtedly necessary that the pace of transfer to unofficial agencies should be quickened. On the one hand, it would relieve the Government of a great deal of the administrative and financial burden which is now borne by them. On the other hand, it would help to stimulate public interest in co-operation and enlist more active support among non-officials if detailed official control were removed. One difficulty, however, which now stands in the way must be frankly recognized. In very few provinces has it been found possible hitherto to create central unofficial organizations with sufficient resources and driving power for the development and supervision of co-operative societies corresponding to the co-operative unions of other countries. And local co-operative unions are at present so much in the experimental stage that they can hardly bear the burden of a large increase of responsibility. Ideally, nothing could be better in India than an independent organization for the development of co-operation, but the way must be paved for

an entirely private agency. The proper course at the present stage is to improve the quality of the Government staff.

Government Help Classified. The relation of Government to co-operative societies in India may be summarized under five heads: (1) financial aid; (2) control and audit; (3) grant of certain special privileges; (4) propaganda; and (5) professional help from Government technical departments.

Financial Aid. Speaking broadly, financial aid has been given by Government in three forms: (1) initial advances to help the starting of new societies; (2) in one province, guaranteeing interest on debentures issued by the provincial co-operative bank; and (3) during the war, special advances to help co-operative societies in two provinces. With regard to the first, when the Co-operative Credit Societies Act of 1904 was passed, it was accompanied by a circular from the Government of India giving permission to provincial governments to advance to any rural society a sum not exceeding 2000 rupees and not exceeding the capital raised from the members themselves, to be held without interest for three years and to be recovered thereafter in ten annual instalments with interest at four per cent. The provision was availed of only to a small extent. Government have been chary from the beginning of affording financial assistance to societies which could possibly get on without it. The tendency in recent years has been to make less use than ever of the provision

for financial grants, and practically the only cases where Government grants are now given are where new societies are started among such specially backward communities as some of the poorer castes and aboriginal hill tribes. Co-operative societies have often proved a great help in the moral reformation of these classes, and the usual arguments against direct financial aid have been rightly waived in their case. The second form of Government help, namely, guaranteeing interest on debentures, prevails only in one province, Bombay. The Central Co-operative Bank in Bombay, which was founded in 1911, was authorized to issue debentures bearing interest at four per cent. The interest has been guaranteed by the Secretary of State for India on the security of the provincial revenues, and this is accompanied by a detailed agreement with the Bank which requires it to maintain as far as possible the co-operative character of its business. This guarantee from Government has helped the bank to obtain loans on cheaper terms than if it had gone unaided into the market. The practice, however, has not been followed in regard to the provincial banks established in other provinces.[1] The third form of Government assistance, namely, special advances of money, was meant solely to meet the peculiar conditions created by the war. In some provinces

[1] In the scheme of land mortgage banks recently sanctioned in Madras, the Government have undertaken to subscribe for debentures equal in amount to the aggregate of private subscriptions up to a specified maximum.

deposits ceased to come in and there was delay in repaying loans. Government altogether granted a sum of 5,00,000 rupees on account of war advances.

Agricultural Loans and Co-operative Societies. A question which has been often raised is whether the loans payable to agriculturists under the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884 may be paid through the agency of co-operative societies. The general practice at present is to pay these loans direct to the agriculturist through the nearest government treasury. The object of these loans is in the one case to make permanent improvements to the land by digging wells, cutting channels and erecting embankments, and in the other to purchase agricultural necessaries such as seed, cattle and implements. Obviously the first involves rather heavy commitments, the loans in respect of it being as a rule granted in large sums and for long periods, and as such they are hardly suitable for handling by small rural societies. The second (i.e. the Agriculturist's Loans Act of 1884) is on a different footing, the loans under it being given for purposes and under conditions which are to a large extent similar to the loans given by co-operative credit societies. The discussion, then, which has taken place over this question relates primarily to the loans granted for agricultural necessities under the Act of 1884. The question assumes a double form: first, whether the loans should be granted by Government as now in respect of

each individual agriculturist, but paid, not direct to him, but through his co-operative society; or second, whether instead of using the co-operative society more or less as a medium, it should be allowed a lump sum of money practically in the form of a Government contribution to its capital, with the right of disbursing that money to individual agriculturists on conditions determined by itself. The first appears to be the policy which, however rarely, has commended itself to Government so far. It was adopted in a few cases, first in 1909 and again in 1913 and 1914. The essential features of the scheme may be expressed as follows. When a villager who is a member of a local co-operative society applies for a loan, it is referred by Government to his society; and the society is required to send up a list of its members who require loans, showing the amount, period, and object of each loan. The list is examined by the Government revenue officer who is bound to see, before passing it, that the society is really unable to grant the loan out of its own funds. Practically, therefore, the amount of the loan payable to each agriculturist is voted by Government. They also select the individuals to whom the loans are to be paid. The transaction is thus one essentially between Government and the individual agriculturist. The name of each recipient is separately recorded. But the channel of payment is not, as hitherto, the government treasury, but the co-operative society of the village. No inquiry is made into

the security of each applicant because it is implied that the co-operative society stands security for loans conveyed through it. For its service in offering its security, the society levies on each recipient of a loan a security fee not exceeding two per cent of the loans. There are several advantages in conveying loans through a co-operative society. First, it enables Government to use the intimate knowledge of local conditions possessed by the society. Second, it confers on the loans the additional security furnished by the society. Third, it saves the rather embarrassing formalities of dealing with the treasury. Fourth, it removes the unsophisticated peasant from the danger of illegitimate exactions by minor agents of Government. The disadvantage is that the additional levies imposed by the co-operative society for its services raise the cost of the loan to the peasant.

Can Co-operative Societies be Given the Right to Administer the Loans? The other proposal regards a co-operative society not merely as a channel of payment but as a body with a certain amount of discretion in the arrangement and distribution of loans. One great objection which has been urged against it in authoritative quarters is that it would place in the hands of officials of a rural co-operative society a larger measure of responsibility than they are fit to handle at present. A more serious objection than this is that if for the purpose of granting loans under the Act, Government

were to make contributions to the funds of a rural society to be used by the latter practically on its own responsibility, nearly all the arguments against undue financial assistance by Government would apply in the case. The money is so much more capital in the hands of the society which it has been able to acquire without any exertion on its part. It must be said on the other side that the practice will relieve Government of a great deal of the routine involved in working the Agricultural Loans Act and that the local knowledge of co-operative societies may lead to a more satisfactory selection of persons entitled to the benefits of the Act. From the point of view of the co-operative societies themselves, there is no doubt that a practice of this kind will be a great deal to their advantage. It will help to strengthen their position in the eyes of the rural population when at a time of agricultural scarcity they are seen to discharge the responsible function of arranging and distributing loans. On the other hand, if the societies are superseded at such a time by the agents of Government, their popularity is apt to receive a check, because the impression will go forth that when the need for the societies was most urgent, they were unable to rise to it.

'Control' Explained. The most important part that Government fulfil in India in the co-operative movement is in regard to the control of societies. The word, control, represents in all three different processes—supervision, audit and inspection. These

processes to a considerable extent shade off into each other; nevertheless a somewhat clear line of distinction between them may be traced. Supervision, though it includes in a sense both audit and inspection, yet differs from them in that it implies the duty not merely of detecting errors and warning or punishing offenders but of educating members in the true principles of co-operation and of starting new societies and consolidating existing ones. It is much more than a formal process to be carried through according to certain fixed rules. It will be noticed, as a matter of fact, that neither in the Act of 1904 nor in that of 1912 is there any specific provision dealing with supervision. It has been left, one would suppose deliberately, as one of the implied informal obligations resting on the organizers and officials of co-operative societies. On the other hand, audit and inspection are both definitely provided for in the Co-operative Societies Act. Section 17 (1912) provides that societies shall be audited at least once a year by the Registrar or by some person authorized by him. Sections 35 and 36 provide that the Registrar may either of his own motion or at the request of a competent party hold an *enquiry* into 'the constitution, working and financial condition of a registered society,' and further that, on the application of a creditor of a registered society, he shall *inspect*, or direct some person to inspect, the books of the society. In order to avoid multiplying distinctions, the term 'enquiry' used in the former clause will be dropped in the present

discussion, and the term 'inspection' will be employed to denote both. 'Inspection' and 'enquiry' are processes so identical that we may well use the one term to denote the other also. The main difference between audit and inspection is that the former is a periodical event, whereas the latter is rather an occasional operation of a somewhat special character.

Processes of 'Control' Distinguished. Audit comprises two things principally: (1) an examination of the books, registers and accounts of each society with special attention to overdue debts; and (2) a valuation of the assets and liabilities of the society. But the duty of an auditor, it is understood, extends sometimes beyond this definition. It would be within his province, for example, to see if the rules and by-laws are observed, whether loans are made for proper purposes, and generally whether the society is worked on sound lines. Inspection involves practically the same kind of operation, but it takes place only on a requisition made by a creditor of the society, or when it takes the shape of an 'enquiry,' on a demand made by the Collector of the district, a majority of the managing committee or one-third of the members of the committee. Supervision has in it much more of the educative element than either audit or inspection. It is not 'a critical and cold-blooded' examination like the latter; it aims rather at helping the societies to develop greater efficiency than merely convicting them of the error of their ways. One point on which the three processes differ materially is the

time at which they are held. Supervision is continuous, audit is periodical, inspection is occasional. It may be doubted, however, if the terms are always used in Indian co-operative literature with this exact sense of their distinction.

Registrar of Co-operative Societies. The chief Government official for the control of co-operative societies is called the Registrar of Co-operative Societies. He is an official appointed for each province for the sole charge of organizing and administering co-operative societies. He is generally an experienced member of either the Indian Civil Service or the Provincial Civil Service. It is to the fortunate selection of the first Registrars that a considerable part of the progress achieved by co-operative societies in India is to be traced. Sir Edward Law's Committee on Co-operation (1901) proposed that the duties of Registrar might be discharged by selected executive or judicial officers in addition to their ordinary official duties. Their idea was that, at any rate in the earlier stages, the work of organization would be so slight that there would be no occasion for appointing full-time officers, although in their report they foresaw the possibility that at some future time officers would have to be appointed exclusively for co-operation. On the passing of the Co-operative Credit Societies Act in 1904, however, the Government of India went beyond the recommendation of the Committee and decided at the outset to appoint full-time officers in the

principal provinces—a measure which has been justified by subsequent events. The duties of a Registrar have been summarized as follows: 'to receive and enquire into applications for registration; to register the by-laws of societies and amendments to them; to audit the accounts or cause them to be audited; to make a valuation of the assets and liabilities of societies and prepare a list of overdue loans; to see that the Act, rules and by-laws are observed; to make special inspection when called upon to do so; to dissolve or cancel societies; and to carry out their liquidation.'[1] But these formal duties do not exhaust his functions; nor are they really the most important. He is mainly the apostle of a new idea in India; and it is rather as a 'friend, philosopher and guide' to the people than as an official that he most fully justifies his position. He must be continually in touch with the economic condition of his province, with the development of co-operation in other countries, with the state of the money market, with the moral and intellectual welfare of the rural population, with the many schemes of social service which are springing up in the country, with all the currents of thought and feeling among the educated classes, with the public press and the opinion represented in it. With the gradual expansion of the co-operative movement both in India and in Europe, the position of the Registrar becomes one of enormous

[1] *Report of the Committee on Co-operation 1915*, pp. 108-9.

responsibility and also of enormous interest. He is not an official in the sense that he is part of a large Government department, liable to be employed more or less as an instrument by his official superiors. His position is really semi-official. That is to say, so long as he follows certain approved general lines of policy, there is nothing to hinder him from doing what he thinks best. The Government secretariats at headquarters have so far left the Registrars somewhat alone, partly because the whole business is unfamiliar to them. The position of a Registrar must increasingly attract the ablest and most ambitious men in the country. Workers in the field of co-operation are an international brotherhood, and the progress in India has been so rapid and the problems so full of interest that there is perhaps no country where a co-operator can do better work or earn greater recognition.

Assistance to the Registrar. In many provinces the Registrar is assisted in his work by Joint or Assistant Registrars, and by inspectors and auditors appointed and paid either by Government or by central banks and unions. The staff appointed by central banks and unions must be men approved by the Registrar and they work under his general supervision. They are selected either from men who have already received training or who have been chosen with a view to special training after selection. The training is generally given by a Government inspector of co-operative societies under the personal direction of an Assistant Registrar.

They are sometimes paid by means of a voluntary contribution by co-operative societies from their annual profits. The necessity for placing the staffs appointed by central banks and unions under the direction of the Registrar is two-fold—first, that through them Registrars may be put in possession of reliable information regarding the financial position of societies and second, that the confidence of the outside public in the sound working of co-operative societies may be maintained. Besides paid officials, there are bands of honorary workers who help in the work of supervision and organization. In recent years the appointment of Honorary Assistant Registrars has been a means of further enlisting non-official assistance.

Fiscal and Judicial Privileges. The special privileges enjoyed by co-operative societies are either fiscal or judicial. The chief fiscal privileges conferred on co-operative societies in India are set out in Section 28 of the Co-operative Societies Act (1912). It empowers the Governor-General in Council, in the case of any registered society or class of registered society, to remit, (*a*) the income tax payable in respect of the profits of the society or of the dividends or other payments received by the members of the society on account of profits, (*b*) the stamp duty with which legal documents executed by the society are chargeable, and (*c*) any fee payable under the law of registration. In addition to this, societies are allowed to send their money in some cases through the

Government treasury; and Government may also help in meeting the expense of co-operative periodicals by agreeing to take a stated number of copies. Exemption from certain fiscal demands is in accordance with the English practice regarding co-operative, provident and friendly societies.

The judicial privileges enjoyed at present by co-operative societies are the following: (1) the share or interest of a member in the capital of a society shall not be liable to attachment of sale under any decree or order of a court of justice in respect of any debt incurred by such member; (2) subject to certain prior claims of the Government or of a landlord, a society shall be entitled in priority to other creditors to enforce any outstanding demand due to the society from a member or past member, (*a*) in respect of the supply of seed or manure or of the loan of money for the purchase of seed or manure—upon the crops or agricultural produce of such person at any time within eighteen months from the date of such supply or loan, (*b*) in respect of the supply of cattle, fodder, implements, machinery or raw materials, or of the loan of money for purchasing any of these things—upon any such things so supplied, or purchased from any such loan, or any article manufactured from raw materials so supplied or purchased; and (3) a society shall have a charge upon the share, deposits or dividends of a member or past member and may set off any moneys held by the society on account of any of these against debts owed by him to the society.

Whether Societies should be Given the Right of Summarily Recovering Debts. It has been constantly asked whether it would not be to the advantage of societies to confer upon them the right of summarily recovering debts due to them. At present co-operative societies, like every other creditor, have to pursue the ordinary processes of law in enforcing their debts. The procedure of civil courts of justice is slow, and there would be a perceptible advantage in enabling societies to get back their outstanding money with the least possible delay. On the whole, the weight of authoritative opinion in the country has been against the introduction of any summary process for the recovery of debts, and this seems to accord with the best principles of co-operation. When the term 'summary procedure' is used, one or other of four different processes may be implied—(1) award of the original decree by a revenue authority, that is, by an executive as opposed to a judicial authority, (2) execution of the decree by revenue process as opposed to judicial process, (3) award of the original decree by the co-operative society itself, and (4) execution of the decree by the society itself. Of these what is mainly contended for when summary procedure is demanded is rather the execution than the award, of a decree by summary process. Provision is made for the adjudication of a society's claims by the Registrar or by a board of arbitrators; the difficulty is with regard to the enforcement of an award so made. According to present practice, the award is

enforced like any award of an ordinary court of justice. This, it is urged, causes serious inconvenience. It is said that the process is too expensive for rural societies, that it leaves many loopholes for debtors to escape, that it involves loss of time to the working staff, that the subordinate courts are presided over by men drawn from the money-lending classes who resort to various subterfuges to defeat the claims of a co-operative society. Against all this, Government held out on the ground that arrears of debt in a society are to be traced to carelessness in the original selection of members and in the distribution of loans and that any attempt on the part of Government to rescue the society would be to set a premium on such carelessness. Quite recently, however, in various provinces the right of summary procedure has been granted in respect of societies under liquidation. Legislation has been introduced for the purpose of making recoverable as an arrear of land revenue any sum ordered by a liquidator to be recovered as a contribution to the assets of a society or as costs of liquidator or as members' debts.

District Officer and Co-operation. The propaganda work done by Government falls into two classes, of which one, namely that carried on by the Registrar and his staff, has been already touched upon. The other is the indirect influence exerted on co-operative societies by the executive and judicial officers of Government. No direct interference by Government officials in the internal affairs of

co-operative societies is either contemplated or permitted. But that a great deal can be done by them to strengthen the co-operative movement by taking a sympathetic interest in its work is generally recognized. The only reference in the Co-operative Societies' Act to the district officer is in Section 35 which requires the Registrar at the request of the district officer to hold an enquiry into the working of a registered society. Among the rules which regulate the conduct of Government servants is one which permits them to take shares or make deposits in a co-operative society under certain conditions. But these formal provisions represent only the less important aspects of the relation of district officers to co-operative societies. What they may accomplish by keeping in touch with the movement in their areas, by offering encouragement where good work is done and giving warning where work is done on wrong lines, has been frequently stated by the Government of India and by provincial governments in their circulars on co-operative societies. Co-operation is gradually becoming, or is expected to become, one of the most important forces in the life of the agricultural population, and no administrative officer can afford to neglect it. It has been noticed in some provinces that district officers are uneasy at the quasi-independent character of societies, that they look upon them as 'an *imperium in imperio* in the district' and as 'something outside the ordinary district administration.' This

attitude is, however, exceptional. The usual attitude of the district officer may be said on the whole to conform to the ideas which Government have repeatedly expressed on the subject and which have never been put more clearly than in their resolution of 1914. 'Without in any way becoming an active propagandist he should, personally and not through his subordinates, make himself acquainted with the progress of the movement in his district, encouraging and helping those who have formed themselves into societies, enlisting the interest and support of men of influence and wealth, and assisting with his advice those who seek to avail themselves of the benefits of co-operation. This in no way involves the officializing of co-operation, nor does it trench upon the essential principle that the movement, if it is to succeed, must be a popular one. Rather will it gain in strength by such encouragement and guidance, while the more closely the district officer is in touch with societies, the more surely will he find to his hand new and valuable agencies to help him in his daily work.' Not active interference, which checks free growth, nor undue patronizing, which causes place-hunters to come forward as ardent co-operators, but a cautious and well-considered sympathy should be the attitude of a district officer towards the co-operative movement.

The Agricultural Department and Co-operation. The chief form of professional help which co-operative societies derive from Government is

that given by the agricultural department. The aim of co-operative societies and of the agricultural department is essentially the same, namely, the economic improvement of the agriculturist, and there is obviously a great deal which they may accomplish by arranging to work together in certain things. A good beginning has, in fact, been made in most provinces in bringing co-operative institutions in closer touch with officers of the agricultural department. The advantage is mutual. To the latter it must be a great convenience to find an organization of agriculturists through whom the individual peasant may be placed in touch with the latest improvements in the processes and implements of cultivation. To deal individually with each agriculturist is neither an easy nor the most desirable means of introducing improvements in agriculture; it would be a distinctly better way to deal with an organization of agriculturists like a co-operative society, which consists generally of the most intelligent cultivators in the village. On the other hand, it is an advantage to the co-operative movement, especially when it begins to develop beyond the stage of mere credit societies, to secure the technical help and organizing ability which the agricultural department is able to offer. Co-operative societies have recently been started in India for the production of certain agricultural necessaries. The chief requirements of an agriculturist in India, apart from credit, are seed, implements, manure, bullocks and water.

The difficulty in obtaining reliable seed is one of the greatest obstacles in the way of agricultural improvement. The village grain dealer who generally supplies the seed is not a professional seedsman and cares little for the quality of what he sells. Most of it is rendered more or less unusable by insect pests, but the agriculturist is compelled to buy it, with his eyes open, at the exhorbitant price fixed by the grain dealer, because it is the only supply to which he has access. One obvious solution of the problem is to start co-operative societies for the production of improved varieties of seed and the necessary technical assistance may be obtained from the agricultural department. Similarly with regard to implements, manures and cattle, produce societies on a co-operative basis may be formed with the assistance of the agricultural experts of Government. In all these cases there is at present no agency except the agricultural department which can offer the essential technical guidance. But the utility of the agricultural department, from the point of view of co-operation, goes further than this. It could secure for co-operative societies the materials for agricultural production on better terms than if they themselves went into the open market, being in a position to give large orders and having the credit of Government behind it. Later on, the co-operative central societies may, in most of these matters, take the place of the agricultural department, but at present they possess neither the organization nor the experience necessary for

any business other than credit. The assistance of the agricultural department is therefore essential to any further development of the movement, and in many provinces definite steps are being taken to secure such assistance. Agricultural demonstrations are held in connexion with co-operative conferences; the staff of the agricultural department inspect rural societies; co-operative institutions are affiliated to agricultural associations on special terms; leaflets on agricultural subjects are distributed among co-operative societies; representatives of co-operation are invited to agricultural exhibitions; and there is frequent consultation between leading officials of the two departments.

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SECTION XIV

Co-operation for Purposes Other than Credit

Slow Progress of Non-credit Societies Explained. Agricultural co-operation for objects other than credit has made but a small beginning in India so far. The total number of non-credit societies according to the latest statistics is 4,302 against 51,834 credit societies. Of the former the number of agricultural societies is 1,047. This is a very small figure, but it implies necessarily no reflection on the progress of co-operation in India. In the first place, it

must be remembered that the first piece of legislation on co-operation in India (the Act of 1904) made no provision for the registration of societies which had any other object than to supply credit. It was only in 1912 that the legislature undertook to extend to other societies the legal and other facilities which had been conferred on credit societies by the earlier Act. In the second place, the slow growth of non-credit, as compared with credit, societies in India is to a large extent in accordance with the history of co-operation in European countries on the continent. In England co-operation started entirely with the supply of household requisites, but in Germany, the home of agricultural co-operation, the first considerable extension of the movement was in regard to the organization of credit. It is true that Raiffeisen's first object was to supply bread to the famine-stricken inhabitants of his district, but he soon passed to a wider view of the subject and saw that before bread could be supplied in sufficient quantity, it was necessary to provide the capital required for making it. In the third place, it is much easier among a backward population to start organizations for credit than for production, distribution, insurance and so forth. These latter forms of co-operation require a certain degree of understanding of the principles of modern business and of skill in managing it. Credit, too, in its developed forms requires considerable knowledge and experience, but in its earlier stages, on account of its routine methods, it holds out

much greater promise of progress among a simple and unlettered population than co-operation for production and distribution. And working on co-operative credit often has the effect of creating among the workers a certain taste for co-operation generally which may be turned to advantage in developing other forms of work.

General Purposes Society. It is usual to find in many provinces credit and non-credit work combined in the same society. The membership in such cases is the same, but care is taken to maintain separate accounts. The advantage of combining at present different kinds of business in the same society is that while the demand for other things than credit is so uncertain, it is undesirable to multiply societies and to subject members more than once to the formalities of registration. Although banking and trading are essentially different forms of business, it is generally admitted that in a village society, on account of the smallness of its operations and the difficulty of finding enough workers, there is no harm in combining the two functions; in fact it is impossible to keep banking and trading apart in a small village society. A beginning in the direction of converting credit societies in this way into what in other countries are called General Purposes Societies has been made in some provinces, especially Madras, by the practice of purchase on indent. Under this system, a credit society acts as a commission agent for its members by collecting orders from them for

the purchase of agricultural and household requisites and passing them in bulk to a wholesale dealer. The members secure the advantages of co-operative buying while the society undertakes no liability. The system saves the need for capital, staff, and storage.

Non-Credit Societies. The principal forms of non-credit business in which co-operation has been employed in India have been classified under five heads, (1) purchase or purchase and sale, (2) production, (3) production and sale (4) insurance, and (5) others. Of these the most important are production and sale and insurance. In speaking of non-credit societies in India *in respect of agriculture,* it is impossible to do more than briefly mention a few experiments which have been tried here and there. They are neither sufficiently numerous nor have they been long enough in operation for a fruitful discussion of their methods and general character.

Societies for Purchase and Sale. Of purchase societies, the most important are those for the purchase and distribution of agricultural necessaries such as seed, manure and fodder. Instances are also found, though rarely, of societies for the provision of rice and other household things. A case was reported, for example, from Burma in 1912–13 of a rural credit society whose members were in the habit of pooling their orders for rice and buying in bulk from a mill at the capital of the province. The rice was divided among the members at the riverside directly it was unloaded from the

steamer, and a considerable saving was made by each member as the result of combined transport. But ordinarily the demand for household things likely to arise in the area covered by a rural society would not be sufficiently large or continuous to justify a permanent business in that line. Seed societies are at present the most promising form of business. There are a large number of farmers who carefully preserve their own seed supply from year to year, but the majority are dependent almost entirely on the grain-dealer. It has been pointed out that this is a matter in which the Agricultural Department can render valuable help to co-operative societies and that efforts are being made already for offering such help. A scheme was once tried for this purpose in the United Provinces with some measure of success. 'The initial stock of seed to establish the crop has been supplied by the Agricultural Department, and the societies will now buy back wheat from members, for re-issue for the succeeding year. In order that the wheat may be kept pure and may not degenerate by gradual admixture, it is necessary that wheat required for seed purposes should not be purchased haphazard from any member offering it, but that only such wheat as is known to be true to type should be taken. In order to accomplish this object, it has been decided to select certain members as seed growers and to issue to them each year pure seed from the Department. These selected cultivators undertake to offer their produce to the society at

harvest time, to thresh the wheat separately and to allow the Agricultural Department inspector to visit their fields. In ordrer to recompense the growers for the extra trouble taken, it is suggested that the selected growers of seed wheat should be paid a small premium for all wheat purchased for seed. All seed should be passed by the Agricultural Department before being purchased by the society. As regards the financial side of the transaction, the seed store profits will largely depend on the difference between the price of seed at harvest time and at sowing time. This is usually considerable and gives the society a margin of some fifteen per cent on a six months' transaction and in some years considerably more.' In a rural society in Madras several years ago an interesting trial was made of a co-operative wholesale purchase of commodities. Some of the members wanted to buy manure and inquiries showed that the wholesale rate was two-thirds the retail rate. So they made an arrangement with the society on the following conditions: (1) The society should purchase stated large quantity of manure at a rate not exceeding a specified sum. (2) On purchase the manure should be distributed among the applicants. (3) The society should advance the money and the applicants should pay aliquot shares on receiving the manure; the applicants should pay interest at prescribed rates for the intervening time. (4) Before acting on the application the society should satisfy itself, as in the case of loan applications,

that the applicants furnish suitable security. (5) The applicants should be jointly and severally responsible, but members who are not applicants should not be held liable.

Middlemen and Cultivators. Societies for production and for production combined with sale are for the most part confined to towns. That there is quite as much room for them in villages as in towns is undeniable, but the ability and organization required for the work are at present relatively non-existent in villages. The aim of these societies is primarily to get rid of the middleman whose interference in the transaction accounts for the small price often realized by the villager for his produce. A common distinction which occurs in tables of prices in India is that between the bazar price and the village price. By the bazar price is meant the rate at which the professional grain dealer is prepared to sell to exporters or large dealers. By the village price is meant the price which the cultivator actually gets for his produce. There is a large difference between the two, sometimes amounting to twenty-five per cent and over. The difference is supposed to represent the middleman's charges for storage, finding a purchaser for the commodity, and for transport. Such charges are legitimate in themselves, but in a transaction between a producer of small means, and a middleman to whom he is often deeply in debt, these legitimate charges can be easily employed to exact as much from the producer as possible. It is impossible for the wholesale dealer to deal

directly with the cultivator, because in the first place, the wholesale dealer cannot afford to buy in small quantities, and in the second place, what he requires generally is not a commodity, say wheat, as such, but a particular class of that commodity for which it is more convenient to deal with a professional trader. The problem, therefore, is not to remove the middleman but to replace him by an organization of the cultivators themselves who will carry out the duties of middlemen on more reasonable terms.

Co-operative Dairy. An instance of a co-operative society for production is a co-operative dairy. An interesting case of a co-operative dairy was reported some years ago from Nagpur. It was, strictly speaking, an urban society in the sense that its operations were carried on in a city. But the classes from whom it drew its members were the old shepherd castes who still retain to a considerable extent their traditional habits, which are those of a rural population. The system of milk supply in Nagpur, as carried on by them, is unsatisfactory to a degree. The quality of the milch stock is very poor owing to bad feeding and the absence of any system of selection in breeding. The supply of milk, during a considerable part of the year, is far short of the demand, and no attention whatever is paid to the sanitary conditions under which the animals are kept. The Nagpur Co-operative Dairy was therefore started with the following objects in view: (1) to get a reliable supply of clean

and pure milk for distribution to the public, by keeping the dairy cattle under sanitary conditions and by preventing adulteration; (2) to form a co-operative society of cowkeepers whereby their credit would be strengthened and their working expenses reduced; and (3) to improve the quality of their milch cows by selection, crossing and better feeding under expert supervision. An area of about 100 acres was taken over and an additional area of about 800 acres was acquired, about half of which was kept for hay while the other half was open for grazing. Iron sheds were constructed by the Agricultural Department for the accommodation of both the milch and dry stock. They were supplied with concentrated food stuffs purchased wholesale by the Department and with fodder produced on one of the seed farms of the Department. At the date of report (1914) there were 131 milch cattle and 90 young animals. The whole grazing area was fenced so that the animals were never allowed to get outside the farm limits to mix with other cattle. The cattle were milked in the sheds under the supervision of a dairy staff appointed by the Agricultural Department, who saw that the milk was not adulterated and that the utensils supplied were kept thoroughly clean. The milk was handed over to a contractor who had constructed an up-to-date dairy with all the necessary appliances for distributing the milk; for separating the milk when there was a demand for cream; and for making butter when there was any milk to spare for that

purpose. The margin between the prices at which the contractor bought and sold covered the cost of distribution and left him a fair profit. The financing of the society was done mainly by the Nagpur Co-operative Central Bank which advanced a sum of 2000 rupees for the purchase of dairy animals and provided a monthly loan of 100 rupees for petty expenses.[1]

Co-operative Insurance. The only form of co-operative insurance which has been tried in India is the insurance of cattle. A considerable part of the money borrowed by cultivators from co-operative credit societies is spent in replacing cattle which have died of disease, overwork or careless tending. It is, therefore obviously to their interest to start some form of cattle insurance. As Mr. H.W. Wolff points out in his book, *Co-operation in Agriculture*, there are two factors which co-operation can bring to the aid of insurance. First, there is the advantage of numbers. When a large number of people offer jointly for insurance, they can obtain better terms for each than if they insure individually. Second, when people undertake their own insurance, they can effect a great deal of economy both in management and in payment of compensation. There is also a substantial reduction of risks 'because the objects insured are constantly under the eyes of those who know all about them and who are directly interested in the avoidance of damage.'[2] In India co-operative insurance of

[1] *Agricultural Journal of India*, 1914. Article by D. Coulston.
[2] *Co-operation in Agriculture*, chap. ix.

cattle has been tried with definite success in two provinces, namely, Burma and Coorg. But experiments have been made in other provinces also, e.g. Bombay and the Punjab. The chief objection which cultivators raise in certain provinces against combining to insure cattle is that it is not worth their while. In a province like Bengal, for instance, 'the land is easily tilled, strong cattle are not necessary, and commercial crops yield early profits.' Another objection, which is sometimes made, is that insurance societies provide as a rule only against ordinary risks and do not provide against deaths due to infectious diseases such as rinderpest. On the one hand, such a restriction cuts down the range of benefits considerably. On the other hand, where such restriction is not made, it becomes necessary to raise the rate of premium much higher, and this puts the society beyond the resources of the ordinary cultivator. Under the system which prevails in Coorg, the amount for which a person insures corresponds to two-thirds of the value of the animal. The amount is paid up within four years by gradually decreasing instalments. The benefit which the insurer receives depends on whether the animal dies before his payments have been completed or after. If before, he receives the total amount for which he has insured. If after, he receives the total amount of premia actually paid up, without interest. In Burma only animals between the ages of four and twelve are accepted for insurance. The amount for which a

member insures is, as in Coorg, two-thirds of the value of the animal. There is a local committee to estimate the value, and this estimate is revised by them every half year. Unlike Coorg, the Burma system requires the insurer to pay up his dues in the form of a fixed premium of five per cent on the value of the animal. The premium is regarded not as a cumulative investment but as a payment for protection which extends only for the period covered by the current premium.' Arrangements have been made in some cases for a system of re-insurance with an outside insurance society by payment of part of the premium in return for guaranteeing a fixed proportion of the indemnity.

Co-operation in Holding and Cultivating Land. Among miscellaneous forms of co-operation, one of the most interesting is the experiment in collective cultivation of land which has been tried in one or two provinces. The Report on Co-operative Societies in Burma for 1912–13 speaks of certain co-partnership tenancy societies in Lower Burma. The object is to collect capital from tenants and others by shares and therewith to acquire land for cultivation by the tenant shareholders. Two different methods are noticeable in the management of these societies. One is that members are divided into two classes, one class being capitalists with large shares and limited liability and the other being tenants with smaller shares and unlimited liability. The society is allowed to borrow up to a fixed

proportion of the assets for financing its cultivation. The second method is to form a central society consisting of Burman capitalists with limited liability for the purpose of acquiring land, and this land is let to affiliated societies in the neighbourhood formed on the Raiffeisen model. It also raises funds by loans and deposits. Another instance of similar co-operation is to be found in Bengal where a few years ago an attempt was made to start a society among the younger landholding class for the collective cultivation of land. The society began with a share capital of 100,000 rupees. A large tract of jungle land was leased from Government and the society was to provide funds for improving the land and making it cultivable. A portion of the land was managed by the society itself, another was settled with tenants, but much the larger part was allotted to different members who were granted loans to defray the expense of reclaiming their holdings. It was the idea of the founders, if the first attempt proved successful, to go on to build mills and workshops and take up co-operation for production and sale. The experiment however failed. The particular class of landholders who were selected possessed neither the enthusiasm nor the aptitude necessary for work of this kind; they were drawn from all over the province and therefore lacked the strong common feeling required to make a success of a co-operative venture; and lastly, the land selected was exceptionally difficult to cultivate and hence

unsuitable to a body of amateur agriculturists. It is worth noting that co-operation in the holding and cultivation of land is an attempt to reproduce in agriculture the type of associations of producers. They can hardly succeed, judging from the experience of such associations in other countries. The difficulties are almost fundamental.

Weavers' Societies. Urban co-operative societies do not strictly fall within the scope of this work, but one type of urban society may be mentioned as possessing exceptional interest and importance to the social and economic life of the country. These are weavers' societies formed for the purpose of supporting the languishing old industry of handloom weaving. The question has assumed a greater degree of importance in Bombay than in any other province, because the introduction of large cotton mills there is tending to draw into the factories an increasing number of those who have hitherto pursued weaving as a cottage industry. Handloom weavers still form a considerable majority of the weaving population, and it is considered that, if steps are taken in time, they may be preserved from drifting into the ranks of a city proletariat. According to the census of 1911, the total cotton-weaving population in Bombay was 460,000 of whom 267,000 were home workers and 193,000 employed in mills. The importance of preserving cottage industries is two-fold. From the point of view of the community, the survival of such industries has a distinct moral

value. Their products are finer, and distinctly more artistic and imaginative. And from the point of view of the workers themselves, it is as a rule a clear advantage to them to remain masters of their own labour and not descend to the level of employees in a factory under conditions which destroy self-respect and the finer virtues. And when the industry is carried on in a village, as is often the case, there is the economic gain to the villagers from possessing an industry of their own. Weavers' co-operative societies have generally three objects in view—first, to lend capital for the purchase of raw material such as yarn, silk, dyes, etc., second, to organize the sale of manufactured goods, and third, to introduce improved instruments suitable to the weavers' needs. The societies start by giving cash loans to weavers for necessary expenses and they undertake the joint purchase of yarn at wholesale prices. For this latter purpose a central yarn broker is appointed at the capital of the province. Most of the difficulties of societies arise from the professional moneylender. Some of his best customers have been weavers, and the societies have managed to take a great deal of his custom out of his hands. He now wreaks his vengeance on the weavers in two ways—first, by refusing them the time-honoured loans for domestic ceremonies which the weavers' societies in many cases do not at present undertake to grant; and second, by buying up cloth at low prices whenever there is a slack season in the cloth market and

underselling the weavers when the busy season returns. The solution for this is to furnish societies with sufficient funds, first, to grant loans for all necessary purposes and second, to accept manufactured cloth on deposit during slack seasons and give the weavers enough capital to keep them employed in the meantime. A co-operative society which was started some years ago for the silk weavers of Benares, on the whole failed, chiefly on account of incapable management. Societies are being tried in other parts of the United Provinces and in some districts in the Madras Presidency, but they still remain more or less in the tentative stage.

SECTION XV

Some General Observations

Economic Results. The primary purpose of co-operation is economic, and the benefits which it has conferred are mainly, though not exclusively, economic. It is difficult, however, to form an accurate estimate of these economic results. No definite statistics are available on the subject, and we are driven to make more or less conjectural estimates. One certain fact is that co-operative societies throughout India possess a total working capital of over thirty-five crores of rupees, and the difference between the interest levied on this sum by co-operative societies and the interest which would have

been levied by local moneylenders represents a not inconsiderable saving to the rural population. If we take about five per cent as the average difference between these rates—which seems a reasonable figure—the amount annually saved in interest may be estimated at 1·75 crores of rupees. This in itself is a substantial achievement. But the saving in interest is only part of the economic results of co-operation in India. There are, besides, the amount of hoarded wealth which increased banking facilities have been able to release, of money which would have gone into unproductive investments like jewellery but has now been attracted into productive channels, of outside capital which through the help of co-operative central banks is now spent in improving agriculture. All these carry consequences which may prove far-reaching and which no statistics can adequately measure. The practice of compiling a register of the land and other property owned by members, which obtains in some provinces, may prove of great value in coming years in estimating the economic improvement brought about by co-operative societies. It was noticed about ten years ago in the register maintained by a co-operative society in the United Provinces that the members cultivated 500 acres of land more than in the previous year and also owned 700 plough cattle and 470 milch cattle in excess of the previous figures. Such improvement is often apparent even in the external aspects of village life. A new well sunk in the village,

an old house repaired, a thatched roof replaced by one of tiles, a fresh industry started—these are some of the signs of rising prosperity which experienced onlookers detect in villages which have been brought under the influence of a co-operative society. Individual cases of people who have owed their rise in life to the fact of having joined a co-operative society are abundant in annual reports on the administration of co-operative societies. The Registrar of the United Provinces reported the case of a peasant in a village in the Agra division who had for many years failed to secure a bride on account of his well-known poverty, but who got elected to the co-operative society in his village and forthwith received several offers of marriage! And another case of a man belonging to one of the poorest and most degraded castes in a village who got on so well with the aid of his co-operative society that he was enabled to take out an endowment policy in a big insurance company. The Registrar in Madras mentioned a case, several years ago, of a village in the Chingleput district where the price of land under rice cultivation more than doubled in the course of four years as the result of starting a co-operative society.

Reduction in Local Rates of Interest. One obvious result of co-operative credit societies is that the competition which ensues between them and local moneylenders brings down the current rate of interest in the locality. In many cases the only course open to the latter,

n face of this competition, is to reduce their rate of interest to a level appreciably nearer the rate levied by co-operative societies. On this point, again, statistics are generally difficult to get. In Madras the Registrar of Co-operative Societies in 1908-09 instructed the inspectors under him to enquire in detail into any changes which might have occurred in the rate of interest in villages where co-operative societies had been started. The following statistics given in the Madras report for that year are given for what they are worth:—

	Village	From P. C.	To P. C.
Anantapur District ...	1.	18-24	12
	2.	18	12
	3.	30	18
	4.	24	18
North Arcot ...	1.	A steady	fall.
	2.	12	9
	3.	12	9-7½
	4.	18	9
	5.	65	24
	6.	36	15
	7.	30	18
Bellary	1.	36	24
Chingleput ...	1.	12	9
Cuddapah ...	1.	75	18
Kurnool	1.	36	28
Madura	1.	24-36	18-24

Co-operation and Indebtedness. A criticism which is often urged against the co-operative credit movement in India is that it has not merely failed to reduce indebtedness but tha

by providing additional facilities for borrowing it has added to the total burden of agricultural indebtedness in the country. There has been so little investigation into this subject that it is impossible to verify the statement by statistical evidence. Assuming, however, that co-operative credit societies have actually increased indebtedness, it is doubtful if the fact of increased indebtedness in itself can be made a legitimate ground for criticism. Indebtedness in itself is not an evil. Whether it is so or not depends partly on the rate of interest and partly on the purpose for which a debt is incurred. Where a loan is raised at a reasonable rate of interest and where it is employed for a productive purpose, there is no economic ground for condemning it. That co-operative societies have helped to bring capital within the reach of agriculturists at a rate of interest which in the present condition of the village money market must be considered reasonable, there is no doubt whatever. But whether co-operative societies have always succeeded in ensuring the productive employment of their loans is open to question. Where loans have been given for necessary but unproductive purposes, there are two things which may be urged in favour of co-operative societies—first, that the loans have been less expensive to ryots than if they had raised them, as they undoubtedly would have, from the village money-lender, and secondly, that the moral influence of societies has perhaps helped to some extent in reducing the outlay which is customary on

these objects of necessary expenditure. Loans for meeting current agricultural expenses are of course productive and they form a considerable part of the transactions of a co-operative society. The real reason, however, why co-operative credit societies in India have not helped as much as they might in productive employment of capital is to be traced to the system of finance on which they work. For most productive work on land loans are required for much longer periods than co-operative societies are able to give. The financing banks obtain their funds from moneys deposited for periods which hardly ever exceeds two years. On the basis of such deposits, it is, from a banking point of view, impossible to arrange a system of long term loans of the kind necessary for making permanent improvements to the land.

Co-operation and Saving. Closely allied to the question of indebtedness is that of saving. It is a usual complaint that co-operation has helped little so far in increasing the savings of the ryot population. The ground on which the complaint is generally based is the scarcity of local deposits in the funds of village societies. It is undoubtedly true that the small extent of local deposits is a deplorable feature of the co-operative credit system in India. But certain facts ought to be remembered in estimating the significance of this scarcity of local deposits. First, the measure of saving is not merely deposits but also paid up share capital. Share capital which is paid up is

practically money which is deposited for an indefinitely long period. In estimating the savings of members of co-operative societies, therefore, it is necessary to take into account both deposits and paid up share capital. Second, if a member of a co-operative society has been helped to save by reason of his membership in the society, it does not necessarily follow that the savings will find their way into the deposits of the society. So long as private money-lending is a profitable occupation in villages, it is to be expected that even co-operators will employ their savings in this traditional and still lucrative investment.

Moneylenders and Co-operation. The figures with regard to rates of interest given in the Madras Report quoted above may not be entirely trustworthy, but they indicate sufficiently how far co-operative societies must have told on the position and fortunes of the professional moneylending class in India. The relation between them is one of the most difficult problems which co-operators have to face. Broadly, the question is, whether moneylenders should be forced into open hostility or whether they are to be induced, if that be possible, to throw their influence and resources on the side of the co-operative movement. It may be noted that Sir Edward Law's Committee on Co-operation (1901) went the length of formulating a definite scheme for utilizing the existing moneylending agency. Their proposal was that moneylenders, who were willing to submit themselves to registration and to keep

their accounts in forms prescribed by Government, should be accorded certain special facilities. They proposed, especially, that loans made by moneylenders for productive purposes at a rate of interest not exceeding twelve per cent should be recoverable by summary procedure, provided that the debtor had agreed at the time of taking the loan to subject himself to the contingency of this procedure. Nothing came of the proposal. In the meanwhile the actual working of co-operative societies has on the whole produced a feeling of hostility towards it on the part of moneylenders. This, however, is by no means universal. There are cases where moneylenders have joined the movement and helped it both with their capital and with their hereditary knowledge of the business of lending; and the larger moneylenders have from the outset realized the new opportunities of investment which the co-operative movement has provided. But the majority of moneylenders have preferred an attitude of firm opposition which they have missed no opportunity of showing. When a person who has borrowed money from one of their class joins a society, it is a common practice to sue him and obtain a decree against him, with the idea that the society should be compelled to find the money. Another way in which they hinder co-operation is by forming companies of moneylenders with large sums of capital with the object of lending money unduly cheap whenever a co-operative society is started in the locality and practically to undersell the new society out

of existence. There are even cases of co-operative societies formed among moneylenders! In all these cases it is recognized that the moneylender's opposition is due to a short-sighted sense of his true interest and that if he takes a sufficiently long view, there need be no hostility between him and co-operative credit societies. To press home to moneylenders and to co-operative societies the fundamental identity of their interests is one of the duties of co-operative organisers in India. There are two advantages, chiefly, which moneylenders may derive from the co-operative movement. The first is that it provides them with a form of investment which possesses much greater security than they have been used to. The business is safe, productive, capable of giving a steady return and guarded from dangerous and corrupt practices by the publicity of its operations and by the legislative provisions for its good management. Second the co-operative movement is helping to increase the material resources of the agricultural population as a whole and to accustom them to the practice of investing, instead of hoarding, their wealth. The increased business which this is bound to create must provide the moneylending class with new opportunities of profitable investment. The advantage to the co-operative movement in securing the support of moneylenders is, first, the much larger field which it opens out for raising capital locally, and second, the hereditary aptitude for finance which their election to committees and offices will bring to the assistance of co-operation.

Moral Effects. In most countries the economic results of co-operation have been accompanied by various forms of moral and social improvement. The enforcement of thrift is of course the chief moral result of co-operative credit societies. Most rural societies, as we have seen, are based on the principle of unlimited liability; and it is to the obvious advantage of every member to see that extravagant expenditure is restrained and that the society is not landed in financial difficulties. The enforcement of thrift has been specially noticeable in the curtailment of the customary expenses in connexion with marriages and other domestic festivities. It is the public opinion of the village which generally fixes the standard of expenditure on these occasions; and this standard is often out of all proportion to the means of the average villager. The influence of co-operation with its insistence on unlimited liability and on the general value of thrift has brought public opinion round, in many cases, to view extravagant social expenditure with disfavour. This tendency is strengthened by the relatively rapid spread of education which follows in the wake of co-operation. Education is required for the simple reason that members must learn to read pass books, sign bonds, and keep accounts if the management of a society is to be efficient and pure. It is a remarkable fact that one of the first results of starting a co-operative society is that the members begin to ask for a school as well, and they are sometimes willing to make substantial grants from

the society's funds towards its maintenance. Another result is the increasing spirit of unity which is visible in village life. Indebtedness is a problem with which every villager is familiar, and any scheme introduced in a village with the object of lessening the burden of indebtedness evokes his interest, though not necessarily his active support. To bring villagers together in co-operating to remove an evil of which they are all alike conscious is an effective means of bringing a new spirit of unity into the village. It might not be reasonable to build great hopes on such evidences of unity as exist at present, but it would be equally unreasonable not to make every possible use of it in extending among villagers a useful virtue which co-operation is so well fitted to inspire. Thrift, enlightenment, unity—these represent the moral results of co-operation in India.

Social Effects. The social results of co-operation which have been a remarkable feature of the co-operative movement in other countries have so far been somewhat insignificant in India. It is even to be feared that the enthusiasm for the social aspect of co-operation is perhaps less now than in the earlier days of the movement. Most of the service which co-operative societies have rendered in this respect has been made possible by the provision in the Co-operative Societies Act (1912) permitting any registered society, after one-fourth of the net profits in any year has been carried to a reserve fund, to contribute an amount not exceeding ten per cent of the remaining net

profits to any charitable purpose (Sec. 34). This fund is employed in one of two ways. Either the society allots definite sums at the end of each year ear-marked for specific charitable objects or it establishes a common charitable fund which is drawn upon whenever a suitable occasion arises. The chief objects for which the fund is used are education, sanitation and medical relief. Education, as we have noticed, is the subject which awakens most interest among co-operators. What is generally done is to find enough money for the maintenance of a teacher in the village, but occasionally they also provide a school-house and other teaching equipment. Provincial governments have more than once directed the attention of their officers to the value of co-operative societies as local agencies for primary education. In the matter of sanitation, societies are found repairing drinking wells, filling in pits and hollows in the village area in which stagnant water collects, removing jungly growths from the village site and effecting other permanent improvements. In one district in the United Provinces, societies maintained a staff of sweepers to keep the village surface clean. Medical relief is undertaken but rarely, but where it is, it takes the form of stocking a supply of quinine for the use of members and their families. The advantage of undertaking these different forms of social service is not merely that it means getting certain things done which very much require doing in the village, but that it enlists a considerable measure

of interest in co-operation among the local inhabitants.

Effect of Famine on Co-operation. It is great testimony to the strength of the co-operative movement in India that it has withstood the succession of grave economic crises which has occurred in the country during recent years. Famine is always a dreadful contingency in India, and though during the past forty years the introduction of an organized system of famine relief has helped greatly to mitigate its horrors, it still casts its baleful shadow across every scheme of rural amelioration. Though the history of the worst Indian famines covers a period long anterior to the introduction of co-operative societies, famines of moderate rigour and intensity have occurred during the past twenty years, and the way in which co-operative societies have withstood them is an eloquent tribute to their stability and to the fact that they answer a deep-rooted need. The most perceptible effect during the actual prevalence of a famine is that there is a distinct fall in the number and amount of fresh deposits and repayments of old loans, an effect which is inevitable whenever there is an agricultural disturbance. But at the end of the famine there has been in every case a satisfactory revival of business, and within a short time the societies have found themselves on their feet again. In a few provinces, societies were employed by Government for the distribution of agricultural loans, and in others, especially Bombay, for the distribution of different forms of charitable

relief. In Bombay and in the Central Provinces, co-operative societies have formed special famine reserve funds. In Bombay the fund originated in a charitable donation from a private trust fund and is distributed among six societies on condition that they should add a small sum every year to their share. The fund is deposited in the provincial co-operative bank and is to be used for famine purposes only. In the Central Provinces, societies contributed a certain proportion of their funds to the provincial bank which re-invested them in central banks and devoted the profits arising from them to the formation of a famine insurance fund.

Bank Failures and the War. A second crisis which co-operation has had to face is the series of bank failures which occurred in India during 1913–14. It was feared that these failures might result in shaking public confidence in banking generally and lead to a wholesale withdrawal of public support from co-operative credit societies. The result in many cases was of an opposite character. People drew a distinction between joint stock banks and co-operative banks, and felt on the whole that the failure of the one was an additional reason for encouraging the other. The facts which appear to have influenced them most were the publicity and local character of co-operative societies, the general safety of their transactions and last but not least, the connexion of Government with the movement. A third crisis was the war. On the whole it may be said that it left

the co-operative movement to a considerable extent intact. There was no disturbance of confidence in its stability or in the stability of the political order with which it was associated. But the uncertain condition of the market for various forms of agricultural produce lessened the capacity of the peasant in many cases to make fresh deposits and to repay existing loans. On the other hand, the rise in prices of agricultural and ordinary household requisites gave an impetus in some provinces to the growth of co-operative purchase.

Defects and their Causes. The detailed shortcomings noticed in successive administration reports in the different provinces were summed up by the Committee on Co-operation (1915) as follows: 'The causes put forward for the failure of societies are very various and include a want of due supervision, indiscreet loans, contumacy of borrowers, unpunctuality in repayments, the restriction of loans to a few individuals, dishonesty or incompetence of society officials, bad selection of members, the extension of a society over too large an area, concealment of old debts, faulty constitution, internal dissensions insufficient funds or membership, the preponderating influence of one member, and general lack of interest by members in the affairs of the society.'[1] This bare enumeration does not help us to understand the real causes of the shortcomings. For that, it is necessary to analyze the situation a little more closely. The essence of the

[1] Pages, 52-3.

situation, it would appear, is this: First, co-operation in India is still to a large extent an experiment in the dark. Its organizers possess a high degree of general administrative efficiency and enthusiasm for co-operative ideals, but they show a certain lack of expert economic knowledge, and from the nature of things their efforts are unenlightened by previous experience. Secondly, the human material upon whom they work, namely, the agricultural classes, while in certain important respects they show an aptitude for co-operative work, for example, in their past tradition of village communal life, are yet by reason of their illiteracy unable in any large measure to appreciate the meaning of the new movement and to respond to it in any active, intelligent manner, either by participation or by criticism. Thirdly, the educated, that is, the professional classes who might be expected to fill up the gap have not come forward to anything like the required extent to support the movement and to interpret it, as they alone can, to the rural population in such a way that they may understand. More skilled knowledge and experience among organizers, more education among the masses, an enlightened and disinterested public opinion among popular leaders—these are the real solutions for whatever defects there are in the present organization and working of co-operative societies. This perhaps is to state the case too generally and to look too far ahead.

The outstanding immediate dangers which require watching are, broadly, of two kinds—

external and internal. The external dangers are chiefly the following: first, the tendency to officialize the movement too much and leave too little to private initiative, second, the eagerness of too enthusiastic organizers to rush the pace of the movement at the expense of intensive development, and third, the present opposition of the moneylending class as a whole. The internal dangers are those which relate to the constitution and working of managing committees. First, there is the danger of one man or a few men monopolizing the work of the committee and leaving too little room or incentive for others; second, the possibility that unscrupulous men possessing local influence may get elected to the committee and abuse their power in the collection and distribution of funds; third, too little care in the selection of men as members of societies.

Lines of Advance. The present defects of the co-operative machinery have been described above. For the future it is necessary not only to remove these defects but also to strike out new lines of advance. In two directions especially is advance called for: first, in placing the co-operative movement in possession of funds which would enable it to grant loans to agriculturalists for long periods averaging at least ten years and second in the development of an extensive system of co-operative sale and purchase. These two things really hang together and on their combined working will depend largely the success of co-operation in increasing the welfare of the agricultural

population. The ryot in the first place should be helped to raise more produce from his land and in the second place should be assisted in finding a better market for what he produces. The first necessitates larger investment in the land for permanent improvements; and for this the ryot would need to be provided with capital which he would not be obliged to repay quickly. The second calls for the organization of co-operative sale societies which would bring the farmer in touch with a wider market for his produce. The organization of co-operative debentures in some provinces and land mortgage banks in others have already been taken in hand for the purpose of providing agriculturists with loans for long periods. The organization of sale and supply societies is an old cry. What is required for the success of these societies is a greater realization of the importance of specialized skill and experience in business. The ideas of gratuitous lay service which are so often associated with rural co-operation have to be modified considerably when it comes to the organization of societies for sale and purchase.

Co-operation and the Village Community. There is one aspect of the co-operative movement in India which must be of peculiar interest to administrators and to students of sociology, and that is its bearing on the ancient village community. That this aspect has been before the minds of its organizers is apparent from scattered observations in co-operative reports and proceedings. The resolution issued by the

Government of India on co-operation in June 1914 contained these words: 'There is some reason to think that the continuity of aim and the solidarity of feeling inherent in the movement may lead to a revival of the corporate village life which has been so weakened by the disintegrating influence of modern times.' Lord Meston as Lieutenant-Governor of the United Provinces in an official note on the work of the co-operative department in his province spoke of 'the pardonable enthusiasm' which 'looks upon the movement as heralding a new corporate village life and even the birth of a rustic civilization and culture.'[1] So the Registrar of Co-operative Credit Societies in Bengal, in one of his annual reports, after describing the effects of co-operation in his province, went on to say, 'It is not a credulous optimism that reads in facts like these the promise of economic regeneration and of a village life invigorated and made healthier in all its relations'.[2] It may be permitted to suppose that one of the causes of the rapid growth of the co-operative movement in India is that the tradition of the old communal life is still present to some extent in Indian villages and that it is reviving in a new form under the influence of co-operation. A rather striking proof of this influence of the old corporate life is to be found in the comparatively weak hold which co-operative societies have obtained in

[1] *Report, Co-operative Societies*, U. P. 1911-12. Orders of Government

[2] *Report, 1910-11*, paragraph 32.

spheres where the village community did not exist. The outstanding instance is the slow growth of non-agricultural co-operation. The artisans and other inhabitants of towns lack the solidarity of feeling which knits the inhabitants of the village and which to a considerable extent they derive from their long association in the common management of village affairs. Another instance is the slow progress which co-operation made until recently in the two districts of Malabar and South Canara on the West Coast in South India. The Registrar of Co-operative Societies in Madras in his report for 1910–11[1] made this remark: 'Looking at the different parts of the Presidency, it must strike any one that the Southern and Tamil districts have proved themselves to be more abundantly receptive of co-operative ideas than Malabar and South Canara which have so far held themselves distinctly aloof from the movement.' The characteristic thing about Malabar and South Canara is that they constitute one of the very few places in India where, from all that we know, the village community never existed at all. The land here lying between the sea and the Western Ghat mountains is so constantly intersected by hills and rivers and wide ravines that the inhabitants generally live in isolated homesteads, each with its own garden. On the other hand, the Southern and Tamil districts have from very early times exhibited a strong and vigorous type of village communal life, as proved by

[1] Paragraph 71

the large mass of epigraphic evidence collected by the Indian Archaeological Department.

Survival of the Village Community. It is commonly supposed, and the supposition is to a large extent true, that the village community has died or is fast dying out in India. But the actual extent to which its characteristic institutions have dropped out of existence is perhaps, on the whole, exaggerated. The main cause of the gradual disappearance of the village community is undoubtedly the existence of a powerful central government. In the old days, when the absence of adequate means of communication prevented central governments from affording what help they could to village communities, it was obligatory on the latter, in sheer self-defence, to organize themselves against external dangers. This necessity has now, of course, passed away, and with it, village communities have lapsed into a comparatively unorganized condition. Besides, much higher standards of efficiency have now been imported into the administrative system, and except in cases where the conciliation of local sentiment was deemed more important than efficiency, the old primitive institutions have largely perished or have been re-modelled in such a way as to be hardly distinguishable. In spite of this, there are even now certain spheres of village life into which the statutory forms of administration have not penetrated and in which keen observers can detect something of the organization of old times. A good illustration of this is the administration of the

village common fund known as *Malba* in parts of the Punjab and the United Provinces. It is a contribution in cash collected by the village headman from the revenue payers of the village with the first instalment at each harvest. The administration of the fund is communal and its principal object is to feed mendicants and pilgrims. A somewhat similar practice may be traced in the remains of what is known as the *Samudayam* fund in the Tamil districts of the Madras Presidency. The relics of the old village organization for communal irrigation were traced rather distinctly by a Government committee of inquiry some years ago in parts of Madras. They noticed that agriculturists were required by custom, at certain seasons of the year, to contribute labour every day by going themselves or by sending other people instead. The whole arrangement was under the supervision of an officer appointed by the cultivators themselves. Another curious survival is the practice, which still obtains in many parts of India, by which the inhabitants of a village enter into a common agreement with a leader of some neighbouring criminal tribe stipulating, in return for a fixed payment, that he should guard the village against thieves. The habit of submitting disputes to the arbitration of village elders, which was a great feature of the ancient organization, still survives in some places in a more or less recognizable form. Similar, though very shadowy, forms of organization may be traced in such matters as village education, poor relief, sanitation,

maintenance of public works, police and administration of justice. It is not suggested that the communal feeling in Indian villages in regard to these matters has survived in its original strength or that in a considerable part of the country it has survived at all. The suggestion is only that it has not disappeared so completely as to render it impossible to make use of it in practical administration on modern lines.

Co-operation Strengthens Village as Unit of Local Government. The influence of co-operation in bringing back the old corporate life of the village may prove to be of real administrative value. It is now generally recognized in India, especially since the introduction of the Montagu-Chelmsford experiment, that it is in local government that the people can find the best field for gaining experience in the methods and principles of self-government. Generally speaking, there are at present three agencies of local government in India—the Municipal Council, the District Board, and in some provinces, the *Taluk* or Subdivisional Board. Village unions and committees are at present merely experiments, though there is a distinct movement in the country towards extending them. The Municipal Council is a local body for the administration of an urban area. Local self-government has not been hitherto a conspicuous success in India, but Municipal Councils on the whole appear to have fared best. Their activities, however, are confined to the professional classes who live in cities and who

constitute not more than fifteen to five per cent. of the total population. Municipal Councils, therefore, can be of but little use to the great mass of the people who live by agriculture and who will continue to live by agriculture as far forward as we can look. On the other hand, District and Subdivisiona Boards have been constituted expressly for rural areas. They suffer, however, from the defect that their local jurisdiction is so large that the inhabitants do not, and cannot, possess that strong local consciousness which is necessary to make local self-government a success. A district in British India has an average size of about 4,000 square miles, and this extensive area is served by one or at best two lines of railway; a subdivision is usually about an eighth of a district with often no railway communication at all and but indifferently served by roads. These wide areas and the difficulty of traversing them are among the chief causes of the failure which has hitherto attended the working of District and Subdivisional Boards. It then follows that, for the agricultural population, the great necessity from the present point of view is to find a local unit sufficiently small and concentrated to call forth a strong feeling of local patriotism. The village at once suggests itself as on the whole the most suitable local unit. The village site possesses many traditions and associations; the people know each other thoroughly; and a few common activities still survive. The Royal Commissioners on Decentralization in India (1907) said in their report: 'The foundation of

any stable edifice which shall associate the people with the administration must be the village as being an area of much greater antiquity than the new administrative creations and one in which people are known to one another and have interests which converge on well-recognized objects.' The point which is of interest to co-operators is that if rural co-operative societies are, as many people suppose, bringing back to some extent the communal and local consciousness of the village, their organization may be used for introducing villagers to some of the responsibilities of local administration. That is to say, when a society has established its position in the village, it may be gradually turned on to such matters as sanitation, education and general village improvement. The practice, in fact, has been already followed in some provinces and it is worth while considering its extension. Two things, however, it is important to remember. The first is that no such action may be taken in a village where the co-operative society does not comprise the best and most influential elements in the village. The second is that such duties must in no case be imposed from outside but must always follow a genuine local demand in the village itself. Otherwise the attempt may defeat its own purpose.

C. L. S. PRESS, MADRAS—1925

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NOTE. The following abbreviations are used :

Association, *Assn.*; Bank, *Bk.*; Co-operation, *Cn.*; Co-operative, *Cve.*; District, *Dt.*; Government, *Govt.*; Joint Stock, *Jt. St.*; Society, *Soc.*; Societies, *Socs.*

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